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U.S. CHEMICAL EXPORTS TO LATIN AMERICA

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

CHEMICAL EXPORTS BY THE UNITED STATES TO LATIN AMERICA

FEBRUARY 6, 1990

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U.S. CHEMICAL EXPORTS TO LATIN AMERICA

TUESDAY, FEBRUARY 6, 1990

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, DC.

The subcommittee met pursuant to notice at 10:02 a.m. in room SR-253, Russell Senate Office Building, Hon. Ernest Hollings (Chairman of the Committee) presiding.

Staff members assigned to this hearing: Loretta Dunn, staff counsel; Sally Susman, professional staff member; Gerri Hall, minority professional staff member; and Fiona Branton, minority staff counsel.

OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The committee will please come to order.

This morning we will commence our hearing on chemical exports by the United States principally to Latin America, but we might ask the DEA and others involved for their suggestions relative to the comprehensive nature of the problem in other countries. Specifically, we signed an international convention in 1988, with respect to the export of these sensitive chemicals going into the manufacture of drugs. Since that time only four countries have ratified that agreement.

The regulations implementing that law went into effect on October 31, 1989, only three months ago. There have been many shipments, only one of which was stopped. There has been a marked diminution of the shipments to Colombia.

The President meets with other heads of State, of course, at the high level drug summit in Colombia on February 15. We hope that this hearing will bring to the fore the need for a comprehensive approach and an international solution. The United States cannot just dam half a river restricting the exportation of these chemicals that get into the hands of the drug lords. On the contrary, we have to make sure all other countries participate not only regarding shipments into Latin America but into Thailand and the Golden Triangle.

Let me yield to our Chairman of the Consumer Subcommittee, Senator Bryan.

OPENING STATEMENT BY SENATOR BRYAN

Senator BRYAN. Thank you very much, Mr. Chairman. I think you have stated the background of the legislation which brings us

here today. As all of us recognize, the various chemicals that are involved here, the precursor and the essential chemicals, all have legitimate uses in the manufacturing processes of insecticides, rubber, cement, cosmetics and plastics.

As important as these chemicals are to the industrial production, we now know beyond any question of a doubt that the Andean countries are importing far more of these chemicals than can be used by their legitimate economic needs.

A CIA study that was released last year reported that while industrial activity in most of this region rose by a mere 2 to 15 percent, the importation of some of these chemicals rose by 125 percent. In recent weeks, Federal authorities have told me that between 40 to 70 percent of these critical chemicals being shipped to Colombia are being diverted to clandestine laboratories for cocaine processing.

Mr. Chairman, the evidence is inescapable that some American chemical manufacturers and distributors have contributed to America's $100 billion cocaine habit.

The record would further show that the chemical industry provided to the Department some 288 names as part of their regular customer status designation. The DEA after investigation rejected 52. That means nearly one out of five regular customers were rejected by DEA, and I think the focus of our inquiry this morning must in part ask some questions.

Did these companies look the other way? Did they ignore the implication of shipping immense amounts of chemicals far beyond what the industrial infrastructure of those countries could legitimately use?

The act itself, as you pointed out, Mr. Chairman, has been in effect for a relatively short period of time, but I think we have an opportunity this morning to inquire of the testimony from the DEA as to whether or not the law is comprehensive enough. Does DEA have all of the tools and the staff it needs to do the job? How effective has this law been in reducing the flow of chemicals to drug producers?

There is another aspect which is equally troubling. As we have made progress here at home in getting our own house in order, it would appear shipments of these chemicals from Europe have increased substantially particularly from the Netherlands and West Germany. Later this week I will be introducing a sense-of-the-Senate resolution which calls upon President Bush to raise the chemical diversion issue at the International Drug Summit in Colombia on February 15.

The President, Mr. Chairman, has a real opportunity to assert leadership, to promote enactment and enforcement of a worldwide chemical diversion effort. Among the things that the President can do is to insist that all countries ratify the United Nations convention which says that all nations must monitor these critical chemicals. Mr. Chairman, as you point out, including the United States only four countries have ratified that convention to date.

The President and State Department must also insist that countries not only ratify the convention but enact laws as strong and as comprehensive as the American laws.

The President must also work with the Andean countries, Colombia, Bolivia, and Peru among others, and their authorities, many of whom risk their lives every day to provide full cooperation with their drug enforcement official to eliminate the diversion of chemicals once they reach those countries.

Finally, Mr. Chairman, may I suggest that the President should encourage Colombia to institute an internal licensing system which will better enable that country to control the flow of chemicals once it reaches Colombia.

Whatever steps are necessary, Mr. Chairman, we ought to be prepared to take, and I would commend you, sir, and Senator Rockefeller, for the leadership that you have provided on this issue not only now but in the original legislation that was enacted in 1988.

Thank you.

The CHAIRMAN. Thank you.

My apologies to Senator Rockefeller. This committee is like the old woman in the shoe. We have so many children, we do not know what to do. This is actually under our Foreign Commerce and Tourism Subcommittee, and its chairman, of course, is our distinguished Senator from West Virginia, Senator Rockefeller.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Mr. Chairman, I want to congratulate you on scheduling this hearing in such a timely fashion. As every one knows, the President will travel down to Colombia next week to attend the drug summit, so the attention of everyone in Washington and around the country is zeroing in on the drug problem.

Let me say at the outset that I am deeply disturbed about the fact that, by some estimates, we have six million cocaine addicts in this country and that a portion of those six million are mothers who leave their newborns in hospitals to become boarder babies, bereft of maternal love and affection. I am disturbed that, as the Washington Post reported on Sunday, over 1,000 people have died in the last 1,000 days in our nation's capital, and probably 75 percent of those deaths are linked to drugs. I am concerned that America has a $100–$150 billion drug habit.

To combat this, we need action at every level of government and in our communities, neighborhoods and families. At the Federal level, our efforts are now concentrated on both the supply side and the demand side. That is good, but we can all do more.

In 1988, the Congress pased as part of the Anti-Drug Abuse Act, the Chemical Diversion and Trafficking Act (CDTA). This act was aimed at the diversion of legitimate chemicals into illicit traffic. The United States has, within its borders, a significant drug problem that stems from clandestine production of speed, other amphetamines, PCP and designer drugs. All of these drugs are manufactured illegally within the United States. In addition to this, legitimate chemicals are used for the processing of cocaine, which primarily occurs in the Andean countries. The availability of the chemicals used in processing drugs is widespread both here and in Europe, and the price is modest.

According to the Drug Enforcement Administration (DEA), "most businessmen who deal in these chemicals are not aware of illicit drug traffic * * * so chemicals can be diverted quite easily by disguising them as legitimate orders in any number of ways." There is, also according to the DEA, "a group of businessmen and brokers who are quite indifferent to the ultimate use of the chemicals and * * * are quite ready to look the other way."

The CDTA was enacted to take care of both these situations. We focus here today on the export provisions of the Act. It requires 15 days notice to DEA prior to export of listed chemicals. However, if the shipment is to a "regular customer," a customer who has been checked out by the DEA in advance, notice can be filed at the time of shipment.

The regulations dealing with exports under the CTDA went into effect October 31, 1989. Prior to the effective date, 288 requests were received for regular customer status—52 requests were denied. The DEA reported that, since the effective date, DEA has been notified of only one shipment going to a firm that was denied regular customer status for cause, and that shipment is in the process of being suspended.

Our purpose today is to look at the effectiveness of the act, its effect on United States chemical exports, and the need for other countries to participate in our efforts to halt chemical diversion. To the knowledge of DEA, the United States is the only country in the world with a chemical diversion law. Since the chemicals controlled by our law are widely used and widely available, a multilateral effort is needed if we are to put a stranglehold on drug traffickers' chemical supplies. If we do not have laws or procedures to control chemical diversion in place in Western Europe and elsewhere, our CDTA will have no effect on the manufacture of cocaine.

Thank you, Mr. Chairman.

The CHAIRMAN. Very good.

Senator Reid has requested an appearance. He is at another committee meeting and will be along momentarily.

We have Mr. Gene Haislip, the Deputy Assistant Administrator of the Drug Enforcement Administration.

STATEMENT OF GENE R. HAISLIP, DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF DIVERSION CONTROL, DRUG ENFORCEMENT ADMINISTRATION

Mr. HAISLIP. Thank you, Mr. Chairman. I have submitted a statement for the record, and this morning I would like to briefly summarize the principal points that I think need to be addressed. Before I do that, however, I have a very brief videotape which I would like the committee to see. It is a tape that was made by our special agent personnel in one of the raids in the Colombian jungle on cocaine producing facilities there. It is quite brief, and I think you will find it interesting. It will also illustrate in a small way perhaps the role that chemicals play in this process.

If you will bear with me, we will take just a minute or two to look at that, and I will explain some of the features as we proceed, if I may.

The CHAIRMAN. I see you have it so the rest of the audience can see it.

Mr. HAISLIP. Yes.

This, of course, is a film that our agents made. They did the best they could under jungle conditions.

[Videotape shown.]

Mr. HAISLIP. This is inside one of the production sheds. Here is, of course, just one of the barrels we seized in these laboratories. There were barrels from all over the world. This was probably from the U.S., but there were many from West Germany and other countries we also seized.

Here are some of the barrels scattered about.

Frequently the chemicals are in containers which cannot be identified from any particular source. You can see they are sitting around all over the place. There are very large quantities.

This raid occurred in February 1989, and it is quite typical of the kind of seizures we make in the jungle.

Now these tanks are disguised so they cannot be seen from the air. Frequently they are actually buried in the ground.

Here they are preparing to destroy the chemicals in the jungle, and that is essentially a fuse. They are sprinkling gasoline over the fuse, and then in a moment it probably will show it going up. I think it just went up.

That is very brief, but we are accompanying the Colombian national police on a number of these raids in Colombia. They have been quite aggressive in recent months, and this is typical of the kind of facility that we see. In a recent facility a little bit later in the year in August a laboratory was seized, and they had six specially constructed storage tanks containing 500,000 gallons of ethyl ether which we believe had probably been trucked in in tanker trucks.

Mr. Chairman, if I may, then, I would like to proceed with my statement.

The CHAIRMAN. Educate me. How do you make cocaine; what percentage is chemicals and what percentage is coke or other substances?

Mr. HAISLIP. Yes, sir. I will attempt to do that.

First of all, it takes about one ton or more of coca leaves to produce a kilogram of cocaine. To start the process, which is usually in Bolivia or Peru, often they simply dig a pit in the ground with a shovel and line it with some plastic so that it will hold liquid. They will dump a ton or more of coca leaves into that pit and saturate it with water. At that stage they will add some lime and kerosene.

What happens is the cocaine that is in the leaf plus a lot of other material is essentially absorbed into the kerosene mixture. So after it has set for a while, they will then pour off that part of their massive mixture, filter out the leaves and just pour off now what is essentially sort of a kerosene mixture that has in it the cocaine plus a lot of impurities as well.

Again, we are still at this stage principally in the Peruvian or Bolivian countryside. Now they will take that and usually mix that with sulfuric acid, most of which is obtained from sources within those countries, and perhaps add some lime or sodium carbonate to

that, and eventually a solid material will fall out of that liquid and settle on the bottom. That is then separated from this liquid mix. At that point we have what we call cocaine paste which is still a crude product.

The cocaine paste may be smuggled into Colombia at this stage. It may move from the very primitive jungle site into Colombia itself for final processing.

There is an additional stage now that it will be put through which is, say, with one of the chemicals we control, potassium permanganate, to try to clean up and destroy some of the impurities in it, and it may be recycled again through sulfuric acid and then ammonia water and essentially out of that will come a more refined product, which we call cocaine base. This is still a crude product, however, and the general nature of the traffic is to take that and refine it into the final product before it is smuggled into the United States.

Most of that work is done in Colombia, and there the cocaine base will be mixed with one of the principal solvents that are controlled under our law such as methyl ethyl ketone or acetone or ethyl ether, and hydrochloric acid, this will result in producing the final solid material which once it is dried will be a high grade, very nearly pure, cocaine hydrochloride. That product will then be packaged for smuggling into the United States.

So that very often it starts with a much cruder process utilizing very crude chemicals such as lime and kerosene and through various stages of refinement ultimately it is shipped for the most part to Colombia where the final refining takes place before smuggling it into our country or into Europe as the case may be.

That, Mr. Chairman, is a very crude and rough sort of description. I think it is essentially accurate. I have been advised on this by my scientific staff.

The CHAIRMAN. I hate to divert you from your statement, but just out of curiosity, how much cocaine is now manufactured in the United States?

Mr. HAISLIP. A very, very small amount. There have been cases of refining the cocaine here in the United States, principally in Florida and in the New York area, but this seems to be a very rare practice, and I think that it is accounts for a very minuscule percentage of the total cocaine in the illicit traffic at this time.

The CHAIRMAN. The 1988 law applies just to export shipments, in other words, I can buy the same chemicals and start manufacturing this in this country and there would be no reporting to you or what?

Mr. HAISLIP. No, Mr. Chairman, it applies also to imports and to domestic commerce as well. So, we do have tools to deal with such a situation should it develop.

The CHAIRMAN. Thank you. Please proceed with your statement.

Mr. HAISLIP. Thank you.

Well, I am very pleased to be before you to testify today, particularly because to me it shows the importance that a committee in the Congress attaches to what I think is a very vital and new strategy that we are attempting to develop to deal with this massive drug problem that confronts our society.

And it is the case that the diversion of chemicals from legitimate sources is a major ingredient in our drug problem. It is a critical factor indeed. Most of the drug problem could not exist if the drug traffickers were not able to obtain from legitimate commerce the various chemicals that they need.

Now, I am speaking here not only of the cocaine problem, which is undoubtedly the largest single problem we have to deal with, but also the manufacture of illegal drugs clandestinely within the United States itself, drugs such as methamphetamine, LSD and so forth.

In addition to that I think we should mention the diversion of some other listed chemicals and especially one of them which is used in the manufacture of heroin. However, I do not think that the United States is much involved in that problem with some important exceptions that we might mention later.

So that if you look at the total drug problems that we have to deal with, without chemicals we would have the marijuana problem, which requires no chemicals, and we would have the diversion of legitimate drugs, which are manufactured for medical purposes. But cocaine, heroin, methamphetamine, LSD, PCP, those problems could not exist without the diversion of chemicals.

And, of course, heretofore, prior to this law, all of these chemicals were readily available and easy to obtain at very reasonable commercial prices on the legitimate market, and I must say that in the great majority of cases, most of the legitimate businesses dealing in these commodities had no suspicion or idea that they were being diverted to such a purpose.

There are, of course, exceptions to this. The United States has a very large and important chemical industry. It is a major component of the national economy, and it certainly confers many benefits on our society. Nevertheless, a small group of chemicals are diverted for these very destructive purposes.

And I should add that the United States is not unique in any of these features. It is not unique in the diversion of chemicals. We see this occurring from virtually all of the industrial nations of the world, especially Western Europe. We see also clandestine manufacture of drugs in other parts of the world, so there is nothing unique about the United States except that we are out front in admitting it and trying to deal with it.

And for this purpose we do have a new piece of legislation called the Chemical Diversion and Trafficking Act, which the Congress enacted and the President signed in November of 1988. The law, however, has only been in force a brief period of time because there were a number of measures that had to be done to prepare its entry into force, so that most of the provisions only became effective in the summer of 1989 and with regard to imports and exports only as of October 30 of 1989, so that we have but three months of experience with regard to that.

So, it is quite difficult for me to be sure whether the law is entirely effective in every way that we seek. I suspect with experience we will be able to recommend some changes, some areas that need strengthening, and some areas in which we might be able to reduce the requirements on legitimate industry as well. But, at this

point it is a little difficult for us to be sure of that with the brief experience we have.

Well, given the time that we have and the resources that we have been able to commit to it, we have accomplished a good deal. We have at least undertaken a national survey to identify all of the companies and businesses with which we need to be concerned, to establish contact with them, to advise them of the existence of this law, and their responsibilities under it to keep records and to advise us of suspicious orders and many other matters with which they must now comply.

We have also established the machinery within the DEA headquarters to monitor, and when necessary disapprove, all imports and exports of the chemicals we are seeking to control.

At this time we have actually suspended two such shipments which we have not allowed to be exported. We have established a very important first level program of liaison with the legitimate industry which we need to carry much further, but in the cases in which we have been able to do this, I believe I see some improvements and some attention to problems of which they were previously ignorant, and so I think that is a very important program.

And then finally we have undertaken some very important investigations, and I will tell you a little bit about the results of those in just a moment. Well—though we have accomplished much, I am always mindful of the fact that bureaucrats talk about what they have done and not what they have not done. The fact of the matter is that we have not done most of what we have to do.

I am proud of the beginning that we have made, but I would not want you to think that we have an effective program existing at this time. We have only the beginning, and there is much that we have to do to make this law effective.

And so if I talk about the positive things we have done, I am sure that you will remember that we are only making a beginning.

Well, we are facing a number of problems in doing this. We have very limited resources, very few investigators and very taxed resources overseas that we have been able to put into this effort at this time, and we have very limited expertise.

There are a handful of people in my office who have some in-depth knowledge of this law and the industry and the commerce that it is designed to regulate. So, we are doing this with the limited resources we have available to do it.

Well, I would like to focus now again on the situation in South America and the production of cocaine. It is not the only problem that the law addresses, but I think it is a major problem that we need to focus on because the cocaine problem is such a severe one. It is such a national disaster, and I would like to focus on that.

We believe that the cocaine traffickers require annually between 6,000 and 12,000 metric tons of the chemicals listed under our law to process cocaine. In other words, they require a massive industrial sized supply. Indeed, the United States ships to all of those countries in Latin America perhaps 60,000 metric tons annually, and you can see that they would require a substantial percentage of their total imports from the U.S. to process their cocaine, perhaps 10 or 15 percent or more.

I would like to point out that the Colombian National police in 1989 seized by themselves 7,600 metric tons of these chemicals in jungle raids such as you saw projected, and so I think if anything, our projections of their need and use of these chemicals may be too low if the Colombian police can seize such an enormous quantity within a single year.

The limited reviews and studies that we have made strongly suggest that the quantities of these chemicals imported into Colombia and other adjacent nations greatly exceeds any rational legitimate need they would have for the commodities.

The chemicals come into Colombia through a variety of techniques. I think in many cases they have come in on valid licenses issued by the Colombian government because at the present time there is not the kind of police investigation of businesses seeking these licenses which would be needed for that government to do an effective job.

I think often, too, the shipments may come in to legitimate customers, but in their subsequent distribution to other customers the diversion of the chemicals occurs.

Further, I think that there are cases in which the chemicals come in without legitimate permits, but leave the dock areas as a result of bribes and payoffs by the drug traffickers.

And, finally, we have some reason to believe that the chemicals may come into an adjacent legitimate port in the Caribbean or on the Amazon River and at that point be smuggled up the rivers such as the Oronoco and the Amazon and across the border into the cocaine production areas of Colombia.

The new law required first that all of our companies submit to us a list of the customers with which they had done business in these countries during the previous year, and we did receive such a list of customers for the purpose of investigating them and determining whether or not these were legitimate enterprises and whether in the future we would permit shipments to those customers.

Further, the law requires that any company wishing to export chemicals to those countries must file with us a declaration which gives us the opportunity to suspend the shipment if we find that the chemicals may be diverted—and I would put the emphasis on the "may" because I think this is where Congress gave us the kind of authority we needed to be effective.

We have endeavored to investigate all of the customers on these lists. We have found this to be extremely difficult to do for a variety of purposes. Colombia, for our people, is not a safe environment. It is difficult to undertake investigations there. And that is true, to a lesser extent, of many of the other countries in which we had to undertake these investigations.

Nevertheless, just looking at the investigations we did in all of Latin America, we have not approved 25 percent of those on the list. And if we were to look solely at Colombia, which I will admit is a central focus of our efforts, we have disapproved 76 percent of those customers.

That would mean that, for one reason or another, we probably would not now permit any shipments to 76 percent of those customers if we received a declaration.

Now I would like to point out that we have made these disapprovals based on several different kinds of criteria. In some cases it is simply that the company would not cooperate in an investigation with us. They would not disclose what they do with the commodity or who it is for. In such a case we would not permit shipment to that company in the future.

In other cases, we found that there is no such company. There is nobody at that address by that name. In other cases we have found or received information that corporate officers are part of the cartel's manufacturing and smuggling of cocaine.

In one case, an owner of the business is a DEA fugitive on an arrest warrant for the sale of 4,000 pounds of cocaine in Miami.

So there were a variety of reasons for which we have disqualified these customers.

In a few cases, but not in Colombia, some of them are merely brokers and are not the true customers, and therefore we do not treat them as customers if they are not actually recipients of the goods.

I think you can see from this that there have been exports of some significance to a number of companies or businesses or entities of some sort in that region, and most especially into Colombia, which we do not feel we would now permit if they were to reoccur.

I think another part of the progress that we are seeing is that some of our own major companies are examining and reexamining their distribution patterns, especially of their subsidiaries in this area. With the result that I think there will be more assurance in the future that shipments to those subsidiaries will not be diverted into the illicit traffic because of this new emphasis and the new realization of past problems with diversion, which I think in many cases were not known or understood.

For this reason I believe that there is now a change occurring in that region. I have just returned only two weeks from Colombia and Peru. And what I believe we are seeing is a shift away from the sources in the United States, which the drug traffickers now know are controlled, toward those sources in the world which are uncontrolled, most especially in Western Europe, and to a lesser extent, probably Brazil.

So that now we see that the lack of controls in the rest of the world is seriously jeopardizing the effort that we are making to deny the drug traffickers their chemicals.

I have consulted with several of the European governments. I think they have every reason to be concerned for their own safety, since they are now primary targets of the cocaine traffic, seeing major increases in seizures of cocaine in Europe. Yet, there is a reluctance to impose controls over these chemicals which are so critical to the manufacture of cocaine.

At this point, none of them have done so, and I know in several cases that there is a stated reluctance to do so.

I think if we can pursue this strategy of chemical control we can have a major impact on the cocaine traffic. We can produce a major disruption in that traffic because they do require a massive, large industrial-size supply of these chemicals to do their business at the level which we have seen occurring in those countries.

I would like to highlight what I think is most important to do to achieve that goal.

We must persuade the Europeans most especially, and others, too, to impose controls similar to those which we have. We must persuade them that it is in their best interest and that if they fail to do so, they not only jeopardize themselves but ourselves as well.

I see that as a major priority which we need to pursue.

We must also try to procure effective control programs in those South American countries which do have some beginnings of programs, not unlike our own. They do have some laws, but at this time they do not have effective administrative, investigative and law enforcement apparatus connected with them.

So they are not able to do the kind of quality job that we need in order for them to bear their part of this burden.

And thirdly, we need to add the kind of resources here in the United States within DEA at the places where it will count.

We have only a few resources to commit to this effort at the time, and they are not adequate.

So these are the things that I think we most need to focus on. And regrettably, they all needed to be done yesterday, last year, the year before, or maybe five years ago. And we now have to do them as soon as we may.

I thank you for allowing me this opportunity to make this statement. And I am pleased to respond to any questions that you may have.

[The statement follows:]

Statement

of

GENE R. HAISLIP
Deputy Assistant Administrator
Office of Diversion Control
Drug Enforcement Administration

Chairman Hollings and Members of the Subcommittee on Foreign Commerce and Tourism: I am pleased to appear before you today to discuss the implementation of the Chemical Diversion and Trafficking Act of 1988.

To properly focus on this area of activity and concern, it is important to know that cocaine, heroin, PCP, amphetamine/methamphetamine, and LSD are 5 of the 20 controlled substances most frequently mentioned in the United States emergency room incidents reported to the Drug Abuse Warning Network (DAWN) during the first half of 1989. None of these drugs can be produced without the availability of a number of chemicals. Most of these chemicals also have fairly widespread legitimate industrial use and are traded freely in international commerce.

Since the mid 1970s, the United States chemical industry has participated in a voluntary program with the Drug Enforcement Administration (DEA) designed to curtail the domestic diversion of certain precursor and essential chemicals used in the manufacture of cocaine. This program has provided valuable intelligence leading to the identification and immobilization of drug traffickers and the seizure of clandestine laboratories. Similar programs have been instituted in some foreign countries, as well.

Nevertheless, voluntary programs have not been sufficient to stop the diversion of chemicals. In 1988, for example, domestic seizures of clandestine laboratories rose to 810, up from 682 in FY 87. U.S. exports of essential chemicals to the Andean region of South America have also increased. From 1982 to 1988, exports of three of the essential chemicals used in the clandestine cocaine conversion process doubled from 9,000 metric tons to 18,000 metric tons, respectively.

In response to the increased diversion of licit chemicals, DEA conducted a study in 1985 that resulted in the introduction of legislation which sought to provide a legal mechanism to curtail the diversion of precursor and essential chemicals and, at the same time, ensure that businesses with a legitimate need for the chemicals would have uninterrupted access to them. This legislation, now known as the The Chemical Diversion and Trafficking Act of 1988, was signed into law by President Reagan as part of the Anti-Drug Abuse Act of 1988.

The Chemical Diversion and Trafficking Act amended the Controlled Substances Act by providing mechanisms to suppress the diversion and trafficking of 12 precursor

chemicals and 8 essential chemicals that frequently are found at clandestine laboratory sites, both in the United States and abroad. It established record-keeping and reporting requirements that provide DEA with the ability to track the domestic and international movement of chemicals, as well as tableting machines and encapsulating machines.

The law also requires that a declaration be filed and received by DEA at least 15 days in advance of the date of importation or exportation. It also gives DEA the authority to stop suspect shipments of chemicals based on evidence that the chemicals may be diverted. In addition, the Chemical Diversion and Trafficking Act provides criminal and civil penalties for violations of the Act and its implementing regulations, including the possibility of preventing a firm from handling listed chemicals for up to 10 years.

All of the provisions of the Chemical Diversion and Trafficking Act, with the exception of the import/export requirements, went into effect on March 18, 1989. Proposed implementing regulations were published in the Federal Register on February 8, 1989 and the final regulations were promulgated on August 1, 1989. The import/export provisions became effective on October 30, 1989.

Since the passage of the Chemical Diversion and Trafficking Act, DEA has conducted a number of training programs throughout the United States to familiarize the chemical industry, investigative personnel of DEA, the United States Customs Service, and the Assistant United States Attorneys with the provisions of the Act and the implementing regulations.

Currently, DEA's domestic field personnel are conducting a survey to identify all chemical handlers that are "regulated persons" under the Act. They are making on-site visits to these firms and explaining the provisions and regulations of the Act to the firms management, as well as soliciting their cooperation in a number of voluntary measures.

Since the import/export provisions went into effect, we have been processing an average of 25 declarations per day. To date, we have identified 60 importers and 62 exporters of listed chemicals. Our Diversion Investigators have traveled to eight Latin American and Caribbean countries to verify the legitimacy of consignees for U.S. chemical exports. The investigations that we have conducted with host country counterparts have resulted in our denying "regular customer" status to 61 foriegn.firms for a variety of reasons, including the fact that some either did not exist or were linked to known drug

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traffickers. A number of other firms suspected of involvement with drug trafficking are still under investigation.

DEA has also been working closely with the United States Customs Service to develop an electronic bulletin board which may be accessed by Customs Inspectors at U.S. ports. This system is designed to facilitate Customs' review of declarations and to enhance the Inspectors' ability to identify suspect or illicit shipments of listed chemicals. Cooperative efforts between DEA and Customs have resulted in the seizure of 22,000 gallons of acetone that was destined for an alleged consignee that did not exist.

We are beginning to see some very encouraging results from the Chemical Diversion and Trafficking Act. Domestic clandestine laboratory seizures, which had been increasing dramatically in past years, rose only slightly, from 810 in FY 88 to 816, in FY 89. And, a number of suspect or "rogue" chemical handlers went out of business shortly after the implementation of the Act and the regulations.

On August 30, 1989, a Federal grand jury in Dallas, Texas indicted four owners and employees of two chemical supply companies that were alleged to be major suppliers of chemicals for clandestine methamphetamine laboratories throughout northern and eastern Texas.

Just last month, four men were arrested in Manhattan and charged with conspiracy to possess or distribute a listed chemical knowingly, or having reasonable cause to believe, that the chemical would be used in the illicit manufacture of a controlled substance. In addition, 20 gallons of ether and 32 gallons of acetone were seized.

Since the Chemical Diversion and Trafficking Act has been implemented, prices for listed chemicals and clandestinely manufactured methamphetamine have increased in some areas of the country. In Texas, for example, the price for one ounce of methamphetamine has doubled, and the price for one pound has increased from $8,000-$10,000 per pound to at least $12,000 per pound. A 110-pound drum of phenylacetic acid, a precursor chemical used to manufacture methamphetamine, had been selling for approximately $2,800, but recently, a laboratory operator was willing to pay $10,000 for it.

While we continue to see significant improvements with the domestic diversion of licit chemicals, there is still considerable cause for concern in the international arena. The

diversion of chemicals from legitimate international channels of commerce is facilitated by the use of free trade zones, where authorities exercise few controls. Traffickers frequently route shipments of chemicals through several countries to impede attempts by authorities to track them. Also, there is no standardized nomenclature for chemicals, nor is there a universally accepted numeric code to identify them. Therefore, even those shipments that are not intentionally mislabeled or falsely identified on shipping documents can easily escape detection by Customs authorities.

We have received information from a number of reliable sources indicating that cocaine trafficking organizations are turning to chemical companies in Europe, where there are few, if any, controls on chemicals. This is particularly disturbing since Europe's role as a source of supply for cocaine essential chemicals was increasing dramatically even before the implementation of the Chemical Diversion and Trafficking Act.

In 1987, the Federal Republic of Germany (FRG) supplied over 5,000 metric tons of acetone, methyl ethyl ketone and toluene to Latin America. Of that amount, 3,679 metric tons were exported directly to Colombia. European exports of methyl ethyl ketone to Latin America increased from 70 metric tons in 1982 to over 5,000 metric tons in 1987, and we have every reason to believe that this figure is just the "tip of the iceberg."

Tremendous quantities of chemicals are also shipped through the port of Rotterdam, where there are no controls or monitoring mechanisms in place. Because of Dutch secrecy laws, Dutch authorities are forbidden to disclose the origin and destination of shipments that transit the Netherlands. Nevertheless, we do know that, in 1987 alone, some 44,000 metric tons of methyl ethyl ketone were shipped through Rotterdam to destinations in Latin America.

Our experience with other drug problems has shown that diplomatic initiatives and leadership on the part of the Federal government are an essential part of any strategy. DEA and the United Nations International Narcotics Control Board (INCB) plan to jointly sponsor a chemical conference for European and Latin American countries in June 1990. Our goals are to sensitize source nations to the problem of chemical diversion and trafficking and to encourage and enhance international cooperation and investigations. In addition, we will encourage both chemical source countries and countries of destination to ratify the new United Nations Convention Against Illicit Traffic in Narcotic Drugs and

Psychotropic Substances, which contains a number of provisions designed to curtail the diversion of 12 precursor and essential chemicals.

Further, we will urge the governments of all countries present to pass comprehensive, national chemical control legislation. We have learned that the United Kingdom (U.K.), which currently has a chemical bill pending before Parliament, as well as other countries in Europe, are reluctant, at this time, to impose any requirements on their chemical industries beyond those specified in the new Convention. The new Convention covers only nine precursor chemicals and three essential chemicals. Only two of those essential chemicals, ethyl ether and acetone, are used in the clandestine cocaine conversion process. Neither the proposed U.K. law nor the Convention requires that competent authorities have the power to suspend or seize suspect shipments of chemicals. Therefore, it does not seem likely that European chemical legislation, as contemplated, will have a significant impact on the diversion and trafficking of chemicals, particularly those destined for the illicit production of cocaine.

Finally, in conjunction with the State Department's Bureau of International Narcotics Matters, we have begun to make a number of high level demarches to key chemical source, transit, and drug producing countries. At present, we are concentrating on Europe and Latin America, but we intend to expand our efforts to Asia as well. Our goal is to sensitize high level officials to the seriousness of chemical diversion and to encourage them to undertake measures to curtail it. We are providing governments with a number of operational objectives in addition to legislative initiatives which will give them the necessary tools to bring chemical diversion and trafficking under control.

Mr. Chairman, this concludes my statement. I appreciate this opportunity to discuss the implementation of the Chemical Diversion and Trafficking Act of 1988. I will be pleased to any questions that you may have.

The CHAIRMAN. Could we just temporarily yield, Mr. Haislip, to our colleague, because I know he has other commitments.

We are delighted to have Senator Reid with us. You keep your seat there.

Senator Reid, the committee welcomes you and we are delighted to hear from you at this time.

STATEMENT OF HON. HARRY REID, U.S. SENATOR FROM NEVADA

Senator REID. Thank you very much, Mr. Chairman.

I apologize for being late, but Senator Bradley was asking me questions before another committee.

Mr. Chairman, we say there is a war on drugs but there is a fatal flaw in our battle plan. If we continue to fight from this plan we could win some of the battles and still lose the war on drugs.

What is this major flaw in the strategy?

It is the fact that major American corporations openly sabotage our anti-drug efforts by selling to the enemy. I am talking about the scandal of American corporations selling to foreign businesses associated with the drug cartel.

Mr. Chairman, cocaine is not something you just pick off a tree like an apple. It is not some kind of poisonous, addictive manna that is mysteriously dropped from the sky into the streets and playgrounds of America.

Cocaine has to be processed. The final step in this process involves using a chemical called methyl ethyl ketone, or MEK, to refine the raw coca leaves into pure white powder.

Exxon and other American corporations export millions—I repeat—millions of pounds of MEK every year. About 12 percent of this MEK is sold to Colombia alone.

MEK has many legitimate uses. It is used to make rubber cement, for example. But in Colombia, it is used for another purpose. It is used to make cocaine sold in this country at over $100 a gram.

In fact, it has been reported by the CIA and others that over 90 percent of the MEK Colombia imports is diverted to cocaine laboratories. That comes to almost 12 million pounds.

On December 5th, 1989, Mr. Chairman, an article appeared in the Los Angeles Times with the headline, "Cocaine has a made in the USA label." Sad, but true.

The subject of the article was Exxon Chemical Company shipments of MEK to Colombia. At that time I immediately wrote to drug czar William Bennett—who, by the way, I think is taking the title czar a little too seriously—asking him to investigate this serious matter.

Six weeks later I received a reply. It was as we refer to in our business, Mr. Chairman, a ROBO, a stock answer. He said too many other congressmen are writing to him and he did not have a lot of time to respond in detail.

The drug czar's response was at the very least inadequate. Neither MEK nor Exxon Chemical were even mentioned in his letter. What I received was a form letter, one instructing me on the provisions of the Chemical Diversion Trafficking Act of 1988.

The usually outspoken drug czar had spoken softly, carried no stick, and dodged responsibility.

But one thing is clear, the Chemical Diversion and Trafficking Act does not list MEK among the 20 chemicals whose manufacture and export is closely regulated. That is why I introduced legislation last week to toughen the Omnibus Drug Bill of 1988 by adding MEK to the list.

I am pleased that this hearing is bringing attention to this long-neglected scandal.

We need answers, Mr. Chairman. Why is Exxon permitted to sell MEK to companies associated with the drug cartel in Colombia?

What is our drug czar doing about this problem, other than sending form letters that are full of rhetoric and jargon, but say nothing?

And are we capable of correcting a major flaw in strategy in order to win the war on drugs?

There is an article out in the Associated Press this morning about this very issue. It cites unidentified sources saying that the DEA will soon move to block the sale of MEK to foreign companies associated with the drug cartel.

I am sorry I missed the testimony here from the DEA, and hopefully they addressed that.

But the wire story also quotes the president of the Chemical Manufacturers Association saying that U.S. exports are often diverted to cocaine producers.

If these reports are merely public relations brought on by my legislation and this hearing, we will still lose the war on drugs because of a poorly conceived battle plan.

But if these reports indicate a genuine change in strategy, then maybe there really is light at the end of the tunnel.

In World War II we would not have permitted American car makers to sell spare parts to Hitler's tank divisions. I believe it is a crime to sell military secrets to foreign governments, as it should be.

In the current war on drugs it should be a crime to sell MEK to companies associated with the drug cartel. And I think, Mr. Chairman, that it is embarrassing that Exxon would not voluntarily discontinue selling this product to Colombia, when it has been indicated by a number of sources that over 90 percent of what they sell goes to the direct manufacture of cocaine.

The CHAIRMAN. Very good. That is a very moving statement.

Senator Rockefeller.

Senator ROCKEFELLER. I might just ask, Senator, or either of you two gentlemen, when these orders are made from Colombia to Exxon or any other company, what is it that the order blank says?

You indicated, Mr. Haislip, that in some cases there was no number, no phone, no address. On the other hand, if you are saying, Senator Reid, 90 percent goes into the making of cocaine, I mean clearly before the diversion there has to have been a bill of sale or some reason for the product to go there?

What is the reason that the product is sent there? What is the purportedly legitimate purpose of the sale?

Senator REID. Quite frankly, Mr. Chairman, we have had a lot of trouble determining what the bills of lading and bills of sale say.

The chemical companies, Exxon in particular, when asked by the media and others, have said that these are trade secrets and interfere with business relationships, and they simply have refused to disclose that information, as reported on national television on several occasions.

Mr. HAISLIP. If I might add to that. It is the practice in this industry, as in many other areas of international commerce, to make these orders through the telex. And they seldom do disclose more than a name and an address.

Now, of course, some of our companies have subsidiaries in those countries, and they are I think largely selling to their own subsidiaries. And so they know who they are selling to.

But in many cases these orders are handled——

Senator ROCKEFELLER. But to the extent of 90 percent? Senator Reid used the figure 90 percent. I am not sure if you used that figure.

Mr. HAISLIP. No, I did not use that figure.

Senator ROCKEFELLER. Well, let me ask you then. What percentage, as best as you can figure, would go to either subsidiaries or to what we would call understandable or ordinary purchasers?

Mr. HAISLIP. I think I can you give some idea with regard to one of the principal chemicals, which is MEK. I would say of the U.S. shipments in that substance, at least half of all of the U.S. shipments, about half would probably go to subsidiaries, maybe more than half. The balance would go to individual customers.

Senator ROCKEFELLER. Might those be unincorporated individual customers?

Mr. HAISLIP. Oh, yes, they could be nothing but a letterhead. They could be nothing but just a phoney address.

Senator ROCKEFELLER. And what do these companies say to you when your agents ask them about that process?

Mr. HAISLIP. Well, when they are shipping to their subsidiary of course they can very easily identify the recipient. The question for us then is what does the subsidiary do with the material?

That is the question that we have. Once the subsidiary in Colombia receives the material, what do they do with it? To whom do they sell? That becomes an issue with us.

On the other side of it, those who sell to customers who are not subsidiaries, well, all they say is, well, we received a telex order directly or through a broker and it says it is for this company and here is their address and their phone number and that is all we know; that is all we ever know.

That is typical. It is not special for this kind of commerce. It is very typical, and the brokers will tell you, well, that is the way we do business all the time. All we know we have a name and an address.

Senator ROCKEFELLER. Let me ask you one additional question. Would there be, to the knowledge of DEA, legitimate uses for MEK or other chemical components that are shipped to, let's say to Colombia? Are there businesses, subsidiaries, whatever there, who could use those usefully in the constructive manufacture of something?

Mr. HAISLIP. Yes, I think that is true. I do not think that there are legitimate uses for the kind of volume that is going into Colombia or Ecuador.

Senator ROCKEFELLER. What prevents you then, having made that statement, from closing in on the difference? What, besides shortage of manpower?

Mr. HAISLIP. Well, this is precisely what we are attempting to do, and as I have said, of all of the customers in Colombia that we have investigated, I believe we would not now permit shipment to about 75 percent of those.

Senator ROCKEFELLER. Would not permit?

Mr. HAISLIP. Would not.

Senator ROCKEFELLER. And therefore do not permit?

Mr. HAISLIP. Well, no one has proposed, since the law became effective, to ship to those particular customers. But if they did, in the cases that I am familiar with as a result of our investigations, we would suspend the shipment.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Bryan, I was hoping to, as a courtesy, to direct our questions here to Senator Reid because I knew he had to get along and we have got the committee global warming bill.

So let me yield to you for Senator Reid, because I do have a couple of questions.

Senator BRYAN. I have no questions of my senior colleague, Mr. Chairman.

Senator REID. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Reid. We appreciate your presentation, right to the point.

I think this is one of our most facets difficult problems. We have tangled with it now 20-some years, and we have yet to really make progress. And this came to my attention out in the "golden triangle" some years ago, Mr. Haislip. And you have made a very fine statement about our needs, one, for coordination, not just lack of resources.

There in the Far East, for example, or in any port, having lived in port town, if I have a Coast Guard official there who watches the port, learns all the shippers and the handlers and everything that is coming and going. You really find, if you have him permanently located and he knows what is going on, that is all he need do.

He will tell you when some drugs are coming along the way and then we can make the intercept. Now, out there in Bangkok, the State Department says, well, our embassy is too big, so we do not have room for one, so we just temporarily place him, but the temporary nature does not allow the individual to be completely informed and do the job.

Thereafter, we follow every Soviet ship. We know exactly where they are, but we do not follow every drug shipment. And if this is a war, we need the Coast Guarders doing an outstanding job, the Customs with their limited personnel and effort doing an outstanding job. And incidently, your DEA is doing more than an outstanding job. You are paying for yourself.

We are making money on the DEA. I cannot get an exact figure, but last year it was around $586 million budget, and from the sale of ships, yachts, automobiles, properties, we got about $621 million, so you are a money-making organization for the government.

The Customs Service has got a contract out, and they are not—that is delivering letters by way of a rabbit. They are not getting anything over there, but your DEA through the Marshal Service is doing a great job.

Let me back into this and see if on the supply side—I know we have to do way, way more on the demand side, but is not this really the choke point for the supply side?

I remember when the oil empires were developed, they really developed their empires by controlling delivery. Let us say I am a drug lord and I am down in Colombia and I have billions of dollars.

My billions do not help me—if all of my shipments are cut off. Even though I have the money I cannot be building factories to produce these chemicals. They are too obvious and easily destroyed.

So if we really can get this coordinated, we can really hit the choke point on the supply side, and that's what we need.

Now, in your vision of diversion control, I think your budget was $37.5 million and you have asked for $42.6 or a $5.1 million increase this year. Is that correct?

Mr. HAISLIP. That's approximately my budget.

The CHAIRMAN. Is that enough? You can talk to me.

Mr. HAISLIP. I would really have to review the figures to give you a precise answer, but as I have said, we do not have sufficient resources invested in chemical control at this time. We do not have them, and I think to be effective, we are going to have to invest more.

Now, my budget is only a part of DEA's larger budget.

The CHAIRMAN. Right, I understand. But I do not think we have nearly enough as you have described it, because you have gone about it in a very comprehensive fashion and that is what is needed.

This is not a simple problem, but if we can get it at this particular choke point, we can really diminish the flow of drugs. For example, right now you mentioned on this film, Shell, Shell United States but Shell will go to the Netherlands ship.

So we have to get the conscience and the attention of an international group like Shell to cooperate, otherwise we are just going to be like a dog chasing its tail and not getting anywhere.

Senator Rockefeller, let me yield to you and ask you to please take over for us because we do have the global warming bill coming up at 11:00, and we have to handle it.

Senator ROCKEFELLER. Mr. Chairman, Senator Bryan will be chairing.

Senator BRYAN [presiding]. Mr. Chairman, Senator Rockefeller, do you have any further questions?

Senator ROCKEFELLER. No, thank you.

Senator BRYAN. I have some questions, but let me ask. We have been joined by Senator Burns. He does not have an opening statement. All right?

Mr. Haislip, you and I had the chance to visit at some extent the other day in my office. Let me try to make some sense out of all of this blizzard of statistics that we deal with.

You are familiar with the CIA report that was released publicly last year, the thrust of which I outlined in my opening statement. Do you agree with those numbers?

Mr. HAISLIP. Well, Mr. Chairman, we are constantly reviewing our numbers, and we think that we are reviewing them with a growing degree of sophistication.

This is what the limited data that we have tells us. We have now only historical data that we can get from certain available sources.

From this point on we are going to have much better data, but what we have is that the quantities of these chemicals that are being shipped to Latin America have been relatively stable over those years, but the distribution has changed markedly.

So that the quantities of these chemicals going into the cocaine production areas appear to have approximately doubled over the last several years, even though the total to Latin America is roughly stable.

Senator BRYAN. Confining our colloquy to the Andean countries, the cocaine growing areas, the thrust of the CIA report is that the amount of these chemicals, and I will call them essential chemicals. You know the distinction between precursor chemicals and essential chemicals.

Let us use critical as a generic if we may, if that is acceptable, Mr. Haislip.

Mr. HAISLIP. Surely.

Senator BRYAN. Of these critical chemicals that are being shipped to the Andean countries, is it fair to conclude that the amount of these chemicals far outstrip by a magnitude of many fold, what the legitimate industrial base in those countries would require for legitimate manufacturing purposes?

Mr. HAISLIP. I think that they are importing somewhere in excess of between 40 and 70 percent in excess of their legitimate need.

Now, it is very difficult to be more precise than that I regret to say, but it could well be 70 percent or higher.

Senator BRYAN. I would take it from your comment that it would follow that your estimate would be, as I believe you shared with me, that approximately 40 to 70 percent of these critical chemicals that reach Colombia, for example, ultimately wind their way into the clandestine laboratories somewhere in the jungle of that country?

Mr. HAISLIP. Yes, I think that is correct, and I think we have seen that even in the case of some exports to Ecuador, a neighboring country. The chemicals in some cases, nevertheless, end up in Colombia, and of course, that is not counted as an export to Colombia.

Senator BRYAN. Mr. Haislip, you indicated that the focus of the 1988 legislation was twofold: one, in terms of the intra-United States domestic shipments, and two, the international shipments, that being exports from the United States.

Asking you for a moment to focus on the exports from America, what percentage of those exports are made by American chemical manufacturers of these critical chemicals?

Mr. HAISLIP. I am having——

Senator BRYAN. Maybe I could make the question easier for you.

Mr. HAISLIP. Yes, could you? But do bear in mind when you rephrase it, I am not sure whether you are considering for example, Hollandia an American company, or Shell an American company or a foreign company, because they are multinational. This is a little bit of the problem I am having.

Senator BRYAN. Let's talk about first of all, if you have the number, those that by any criteria would be American chemical companies as opposed to those that are foreign companies that have subsidiaries operating in America.

Mr. HAISLIP. Well, what I think is that the relative percentage of shipments from the United States which would include Shell in the United States, for example or Hollandia, compared to shipments from Europe is now shifting.

Whereas in the past, most of these chemicals have come from the United States, I think a shift is on, and in the future we are going to see that Europe and, to some lesser extent, Brazil and other countries will become the predominant supplier.

Senator BRYAN. Mr. Haislip, would The Netherlands and the Federal Republic of Germany, West Germany, be the two principal exporting countries from Europe?

Mr. HAISLIP. Yes, I think that's correct. Of course, there would be similar problems of probably lesser magnitude from the U.K. and France and others, but we find that a great many shipments leave The Netherlands. The material will be of manufacture in West Germany, sometimes The Netherlands itself, for these countries.

I would like to mention a case that we had; it was an interesting case. A broker in London ordered the material from a supplier in The Netherlands and the material, was shipped from Rotterdam to Colombia.

The customer was a fiction. The material, which was acetone, was falsified on the manifest and papers, shipping papers, and the labels on the containers themselves were spray painted over so that the merchandise could not be identified.

Now, that is the kind of problem we are seeing in Europe. And the Europeans would like to pretend that voluntary efforts will solve their problem, and it is quite clear that that is the thinnest kind of pretense.

Senator BRYAN. Let me go back, if I may, Mr. Haislip, to try to get a handle on what is coming out of the United States to the Andean region.

You indicated I think at one point that there were some 288 customer designations, 52 of which were rejected by the DEA for a variety of reasons that you outlined.

You further indicated that, with respect to customer designations in Colombia, that you are rejecting some 76 percent. Now, these customer designations, as I understand it, are names that are given to you by the chemical companies. They are not names that you

search out through an inventory or directory or any source that you have.

These are companies that have submitted these names to you, am I correct in that premise?

Mr. HAISLIP. You are correct. Further, there are companies or entities with whom they have done business at least once in the past six months or twice in the previous year.

Senator BRYAN. And these companies that have designated these customer lists are legitimate companies, prima facie?

Mr. HAISLIP. Yes, sir, I believe they are.

Senator BRYAN. They are not themselves known to you as fronts, clandestine operators, brokers that are directly involved? In other words, your agency accepts these designations by these companies, or by the companies themselves, as being legitimate companies for purpose of the designation?

Mr. HAISLIP. Yes, I believe that these lists were supplied to us by legitimate companies.

Senator BRYAN. I guess the thing that shocks me and that I think is such a national disgrace is recognizing the magnitude of our drug problem, which you have commented on, the $100 billion a year cocaine habit, that legitimate companies required federal legislation before exercising some restraint and yet today, even after this legislation has gone into effect, that 76 percent of the requests that you get from legitimate companies are rejected by your agency.

I imply no criticism, Mr. Haislip, of you or your colleagues in DEA, but these are outfits, some of which do not have an address; some of which have no legitimate basis for operation. Some are clearly fronts. And why these legitimate companies would supply you with those names when, in some instances, the most fundamental of inquiry—trying to make a phone call—ought to raise suspicion that these companies in fact are not legitimate customers.

Would that be a correct observation?

Mr. HAISLIP. Well, I can only point out that prior to this law they had no obligation and they had presumably, very little understanding of the nature of the illicit drug traffic.

Senator BRYAN. I guess the point that I am trying to make is that we are making some progress, and I accept that and I am obviously very pleased. But it seems to me that there is a moral responsibility on companies before they submit to your agency, overtaxed as you are and with a tremendous workload, to submit a legitimate customer in their own opinion and not even made the most fundamental of inquiry. That troubles me greatly and I am going to ask the chemical people about that when they testify.

I recognize that some of these are much more difficult to ascertain, and I do acknowledge that.

Finally, before yielding to my colleague, Senator Burns for a question, is there anything other that the resources which you commented on to the chairman that we can do, that we ought to do in terms of approving this legislation that was enacted in 1988? Any loopholes that need to be closed? Is the 15-day notification period a reasonable time?

Is there something that you found in the operation, limited as that experience has been, that we ought to be aware of?

Mr. HAISLIP. Well, the 15-day limitation is a very difficult one for us. I found that international communications and activities burn up a lot of time. So this is a potential problem.

By the same token, I do not think we need as much time or have the same problems when we are monitoring the commerce to other parts of the world.

As I look at what we are trying to do, I guess I wish I could take a longer look and a more detailed look in those parts of the world—which is a small number of countries, where we have the greatest concerns and perhaps—I think we do not need that. We do not have those same requirements with shipments to other parts of the world.

But again, I emphasize that this is a little premature, and I am not really prepared to say at this time, given only three months of experience with it.

Senator BRYAN. If the Congress is inclined to support the sense of the Senate resolution which I intend to offer, we have talked about encouraging the ratification of the treaty. I believe you would agree with that, Mr. Haislip from your testimony.

Mr. HAISLIP. Yes, I would.

Senator BRYAN. We urge the adoption of a comprehensive statutory framework comparable to what we have done in the Chemical Diversion and Trafficking Act. You would agree with that, would you not?

Mr. HAISLIP. Yes, sir, I certainly would.

Senator BRYAN. Obviously, whatever we can do diplomatically, privately and every other way to encourage the customs services in these Andean countries to work as closely as possible with our law enforcement people, that would certainly be helpful.

Mr. HAISLIP. Yes, and I would like to just comment on that very briefly.

Senator BRYAN. Sure.

Mr. HAISLIP. When I was in Lima just two weeks ago, I went to see the commanding general of the police who is in charge of this function. I had to walk up about seven flights of stairs because the elevator has not been functioning there for about nine months, and it is probably not going to be functioning for the next nine months.

When it comes to putting gasoline in their cars to go do investigations, that does not function so effectively either. So I think we have to realize that there is a great problem in these governments responding to this burden and I would like to see some kind of assistance to them for chemical control programs, either from the United Nations or through whatever means we have to provide them that kind of very specific assistance and say, look, this is for chemical control.

So I think we have to realize the difficulty they have in doing their job.

Senator BRYAN. And the other point that we talked about, perhaps an internal licensing or importing system in those countries, would that not be helpful if we could persuade those countries to develop an import licensing system?

Mr. HAISLIP. It is helpful, and I think they are willing to do it, but I do want to emphasize that merely enacting a law and having a licensing system is not going to produce a result if they do not

have investigators dedicated to examining those who are applying for these licenses, and that appears to be a problem in Colombia and other countries right now.

Senator BRYAN. Mr. Haislip, I thank you for your testimony. Senator Burns has some questions and I yield to him.

Senator BURNS. Thank you, Mr. Chairman. I just have a couple of questions to sort of clear the air.

Mr. Haislip, thank you for coming this morning. I have to apologize for being late. I am wondering, is the nature of these chemicals being shipped from this country that they have other uses? In other words, they have legitimate uses, is that correct?

Mr. HAISLIP. Yes, they do, Senator.

Senator BURNS. I would like to ask you, how has the cooperation with these major chemical and manufacturing firms been with you as far as identifying destinations, or identifying form of payment and where it comes from this type of thing?

Mr. HAISLIP. Well, without naming names, we have endeavored to establish that kind of cooperation with some of the very large companies. It is only a beginning, but in those cases in which we have been able to have meetings, I believe we are seeing some results, some benefits from that.

I think that they are coming to understand the problem better. I think that they are communicating more actively. I guess that is a nice way to say putting pressure on their subsidiaries to scrutinize their distribution patterns closer.

So I believe that we can get a lot of benefits from those companies who understand and react responsibly, and that is the pattern that we are seeing.

So I feel compelled to do more of this, and one of the small and very cheap programs I want to undertake in the immediate future is to have some of my senior officers personally dialogue with some of those companies in their corporate headquarters on this issue.

Senator BURNS. It would seem to me that if an American-based company that understands this terrific drug problem that we have in this country and the almost bottomless appetite for the darn stuff, and knowing the problems that it brings into its own work place, and the communities and neighborhoods that surround it, that it should be willing to cooperate in some way or another or take that responsibility upon itself to police its own actions to find out where these chemicals are going.

You see, the U.S. Government has a bad habit of putting laws on the companies that do business here with no power to regulate what other countries do, so activities we are trying to control are diverted offshore. What we do is kill a domestic industry that does a good job in the production of food and manufacturing and is a viable part of our economic sector.

I would ask that we seek a spirit of cooperation, trying to instill in these companies, whoever they are, that business has to be done knowing—it has to be—that there is a moral judgment call here.

I am wondering if you are making inroads in that respect?

Mr. HAISLIP. Senator, I think that you are right. I think the United States has pioneered this kind of control. We have put our industry at some competitive disadvantage. The ones that I have talked to are accepting that. They are willing to cooperate.

They do not want to see their chemicals going in to the drug traffic. I think they are cleaning up some situations that are of concern to them, and I think it is a very unfortunate thing that the Europeans and others might pick up this dirty piece of business we are trying to wash out.

It is my opinion, my own personal opinion and I suggested this in many meetings in my recent visit in South America, that if those other source nations do not impose controls over these chemicals, then they should not permit imports of these chemicals from those countries. That is my opinion, because we are going to the trouble to clean up our act and I think others, to be responsible, ought to do the same.

Senator BURNS. Thank you coming this morning.

That's all I have to ask Mr. Haislip. Thank you, Mr. Chairman Bryan.

Senator BRYAN. Thank you, Senator Burns.

Mr. Haislip, we appreciate your testimony and assure you that members of this subcommittee want to work very closely with you and your staff.

Mr. HAISLIP. Thank you so much for your level of interest. We appreciate it.

Senator BRYAN. Thank you.

We are joined this morning in our next panel by Mr. Don Coticchia, and I am hoping I am pronouncing his name correctly, the group Vice President of Ashland Chemical Company; Mr. John Rutledge, the Latin American Manager of Exxon Chemical Company; Mr. Russ Simmons, Vice President of Pecten Chemical Company; and Dr. Rensselaer Lee III, Global Advisory Services.

Gentlemen, as you make your way to the table, I have asked for a chart to be placed there that I might want to ask some questions—or Senator Burns afterwards.

This chart appeared in the Los Angeles Times in December of last year. Mr. Douglas Dell wrote an article about this trafficking and as you can see, it shows the routes of commerce from the United States to the Andean countries and indicates the volume of acetone and MEK, methy lethylketone, and shows that curve to be an ascending curve. And we might want to talk about that and give you a chance to look at that in a moment.

It also shows the nature of processing areas for cocaine. And that appeared in the December 5th article in the "L.A. Times."

We will begin with Dr. Rensselaer Lee, and we welcome you here to the panel this morning, and because we do have a distinguished panel of four members, we would like to ask you too, if you can, keep you can keep your time to five minutes. Any additional comments you want to make will certainly be made a part of this record.

Dr. Lee?

STATEMENT OF RENSSELAER W. LEE III, GLOBAL ADVISORY SERVICES

Dr. LEE. Thank you very much, Senator.

I am not really an expert on the main subject of today's hearing. But I do have some rather general thoughts about how difficult it

is to control the cultivation of coca, the manufacture and shipment of cocaine and by implication also the diversion of precursor chemicals to the laboratories that process cocaine now. There are a number of reasons why the narcotics control environment within the Andean region present some very formidable challenges, and I would like to mention these reasons here.

And the first, perhaps the most obvious, is that cocaine has gained a very powerful economic foothold in the Andean countries. The cocaine industry probably contributes at least $2 billion yearly to Andean economies. It employs full-time or part-time at least 1 million people. Economic dependence on cocaine is especially pronounced in Peru and Bolivia. These countries are worse off economically than they were a decade ago.

The cocaine industry has been a kind of economic safety valve for Peru and Bolivia, providing jobs and income and foreign exchange where the legal economy has failed to deliver.

I think it is reasonable to expect that if the cocaine industry disappeared tomorrow per capita income exports would drop dramatically, and there would be massive unemployment, and possibly very extreme political pressures on the Andean democracies. And I think also that the effects would not be negligible in Colombia, where repatriated cocaine earnings represent an estimated 3 percent of gross national product and perhaps 15 percent of legal exports.

And this general pattern of economic dependency I think limits the amount of real cooperation that we can expect to get from Andean governments in trying to shut down the cocaine trade.

Secondly, the cocaine industry has become very deeply intertwined with legitimate national institutions in Colombia and Peru and Bolivia. To use military terminology, it is very difficult to distinguish between enemies and friends in the so-called drug war.

Cocaine dealers invest extensively in legal businesses. They probably have bought into businesses that handle chemical solvents that are used in that manufacture of cocaine. They are farmers; they are ranchers. They are said to own nearly 1 percent of the entire land area of Colombia.

Traffickers have also bought into the power structure. They maintain networks of accomplices and informants in key institutions such as the military, the police, the custom service, the judiciary and various government ministries.

The other side of the corruption problem is the problem of control. The governments of Colombia and Peru and Bolivia have traditionally exercised little or no authority over much of their national territory and air space. And these vast trackless wastes in Northeastern Peru and Southeastern Colombia, Northern Bolivia have traditionally been havens for coca growers, cocaine traffickers, guerrillas and bandits and other types of malefactors.

A third point is that Andean public opinion does not necessarily support all of the anti-drug initiatives that we are trying to introduce into these countries. Andean publics do not see fighting cocaine as a particularly high national priority compared to, say, fighting inflation or creating jobs. Also Latin Americans are highly nationalistic. The more that we involve our military forces in anti-

drug operations in South America, the more resistance our policies are likely to meet.

I might also add that in Colombia a consistent majority of the population opposes the extradition of drug traffickers to the United States. And also Colombians are by now pretty tired of the economic and human cost of the drug war.

And another problem that I want to mention is that Peru and Colombia are faced with a growing guerrilla threat and that certain types of anti-drug programs work to the advantage of guerrilla groups. In Peru's Upper Huallaga Valley, for example, more than 100,000 farm families make a living from cultivating the coca plant. And our efforts to shut down the coca trade, and especially to use herbicides against the coca plant have been a political bonanza for the deadly Shining Path guerrillas.

And the final point I want to make is the cocaine trade is not containable within the specific country or region. Even if we spend a few billion dollars and come up with a workable crop eradication, crop substitution and interdiction program in the Upper Huallaga Valley or in the Bolivian Chapare, new grower trafficker complexes would probably emerge in other regions or other countries or even other continents.

The coca plant is hardy and adaptable. It can probably grow in most tropical environments in most parts of the world. Cocaine laboratories of course can easily be moved around. Traffickers can easily switch from one smuggling route or method to another.

And all this is really to emphasize that as long as the profits are there and the demand is there, people will find a way to make cocaine and to move it into U.S. markets.

Thank you.

[The statement follows:]

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STATEMENT OF RENESSELAER W. LEE III, GLOBAL ADVISORY SERVICES

BACKGROUND

South America probably produces and exports somewhere between 250 and 350 tons of cocaine a year, mostly to the United States and Western Europe. A major objective of U.S. policy in recent years has been to stop the cocaine traffic within the main South American source countries: Colombia, Peru and Bolivia. The point I want to make today is that this is basically an unrewarding enterprise. The Bush administration does not seem to agree: The administration would like to give at least $400 million in narcotics-related assistance to the Andean countries over the next 5 years. And between FY 1988 and FY 1990 U.S. military aid to the Andean region increased astronomically from $4.8 million to $176.6 million. I would argue that such an escalation of the drug war is leading us into a wasteful and dangerous morass. The cocaine industry is simply too well entrenched, economically, socially, politically and bureaucratically in South America for outside aid to have much effect. Indeed, certain types of anti-drug policies can be harmful and destabilizing to the countries concerned.

Let me give you five main reasons why our efforts to stop South American cocaine aren't working and aren't likely to work. These factors, I think, also partly explain why it's extremely difficult to interdict the flow of critical chemicals -- ether, acetone, MEK, chloroform etc. -- to laboratories that refine cocaine within South American countries.

ECONOMIC FACTORS

First, cocaine is a major economic activity in the Andean region. The cocaine industry probably contributes at least $2 billion a year to Andean economies. It employs at least a million people -- as farmers, leaf harvesters, processors, middlemen, transporters, and security guards. And this is just direct employment. Vast numbers of people -- such as accountants, retailers, bankers, lawyers, construction workers, chemical suppliers and so on -- benefit by selling goods and services to the industry.

Economic dependence on cocaine has reached an extreme phase in Peru and Bolivia. Both countries are clearly worse off economically than they were a decade ago. The cocaine industry has served as a kind of economic safety valve for Peru and Bolivia -- providing jobs, income and foreign exchange where the formal economy has failed to deliver. One leading Bolivian economist estimates that if Bolivia stopped producing cocaine tomorrow, Bolivia exports would drop by 50 percent, Gross Domestic Product by 43 percent and per capita income by 61 percent. Some 350,000 to 400,000 Bolivians are employed in the cocaine industry. One wonders how long democracy would last in Bolivia if a couple of hundred thousand unemployed coca farmers decided to march on La Paz.

Andean political leaders are understandably nervous about the anti-cocaine policies that the U.S. is trying to promote in the region. They are afraid that the cure could be worse than the disease. There's already good evidence that narcotics control programs generate support for extremist, anti-democratic and anti-American movements in South America.

The challenge is somehow to wipe out the cocaine industry without creating unmanageable economic and political crises for Andean governments. To do this job right would require massive programs of economic rehabilitation -- the detoxification and reconstruction of entire national economies; the relocation and re-employment of huge populations, the creation of new agricultural and agro-industrial complexes and so on. Such a task, I believe, would cost billions and require years if not decades to accomplish -- if it could be accomplished at all. The Bush administration has tentative plans to spend a $1.0 billion to $1.5 billion over the next five years on economic aid programs in the Andean countries, but even this large sum won't nearly compensate for the effects of the cocaine economy or change the patterns of dependency that now exist.

CORRUPTION AND CONTROL

Second, the cocaine industry has become deeply intertwined with legitimate economic and political institutions in Colombia, Peru and Bolivia -- to use military phraseology, it is difficult to distinguish between enemies and friends in the so-called drug war. Now we associate cocaine trafficking, especially in Colombia, with violence against the state: with murder, assassination, kidnappings and bombings. Yet the drug lords are not revolutionaries. They have limited political objectives (an end to extradition, immunity from prosecution) and they work largely within the system. For instance, cocaine dealers invest in farms, ranches, hotels, banks, construction firms, drug stores, radio stations and other legal businesses. Colombian traffickers are said to own roughly 2.5 million acres of land which is close to one percent of the entire land area of Colombia. So obviously traffickers are an important factor in the rural economy and a significant political force in the countryside.

Cocaine traffickers' enormous financial resources have enabled them to buy into the power structure in the Andean countries. Traffickers maintain networks of accomplices and informants in key national institutions, such as the police, the military, the customs service, the judiciary, government ministries and the news media. Andean traffickers are sophisticated political actors -- they contribute generously to electoral campaigns and lobby publicly to defeat government anti-drug initiatives. Also, they've gained a mass political following by sponsoring welfare programs --

such as slum renewal projects, schools, and clinics -- that benefit the urban and rural poor.

Obviously, vast and powerful constituencies have developed around the cocaine industry. The constituencies constitute a gigantic protective cocoon for the trafficking infrastructures -- for cocaine labs, chemical flows, clandestine airstrips and drug shipments. Also, they allow the chief executives of the cocaine industry -- the Escobars, the Ochoas and the Rodriguez Orejuelas -- to keep one step ahead of the authorities. I should add that these cocaine constituencies extend well beyond the Andean world to encompass public officials and political figures in Central America, Mexico, the Caribbean and even Communist Cuba and Nicaragua. With cocaine we are witnessing corruption on a scale that is unprecedented, I think, in the Western Hemisphere.

The obverse of the corruption problem is the problem of control. The power of narcotics industries derives partly from the weak strategic reach of Andean governments. Governments of Peru, Colombia, and Bolivia have traditionally exercised little or no authority over much of their national territory. In some of these remote jungle areas, drug traffickers have established their coca fields, cocaine laboratories (especially for early-stage processing), storage facilities, and smuggling networks. This "no man's land" includes much of Eastern and Northeastern Peru, Northern Bolivia, Northern Brazil and Southeastern Colombia. The movement of processed cocaine out of these trackless wastes or the movement of precursor chemicals into them is extremely difficult to detect and interdict.

PUBLIC OPINION

A third problem is that public opinion in the Andean countries to some extent conflicts with our anti-drug objectives. Drug control may be the most important U.S. priority in the Andean countries but Andean governments and publics have more important concerns -- such as inflation, jobs, economic growth, crime and subversion. Also, Latin Americans are highly nationalistic. The introduction of U.S. army units into Bolivia in 1986 ("Operation Blast Furnace"), the plan to station a naval task force off the coast of Colombia, and the increasing use of U.S. special forces and other military advisors reflect an expanding U.S. military role in the drug war. The more we "Americanize" and "militarize" anti-drug operations, the more resentment we're going to create in Latin America. In Colombia, nationalist sentiment is reflected in a fairly consistent 60 to 70 percent majority that opposes the extradition of Colombian drug traffickers to the United States.

Also in Colombia, people are sick of the economic and human costs of the drug war. Recent polls show that most Colombians favor some kind of dialogue or detente with cocaine dealers to end the violence that is tearing apart Colombian society. Now the drug

lords themselves have offered to get out of the cocaine business and to lay down their arms, apparently in return for amnesty and an end to extradition. Given the current mood in Colombia, this offer puts the government in somewhat of a bind. But I suggest that a "dialogue" could lead to de-facto legalization of drugs in Colombia because the government does not have enough control over its territory of enough national technical means of verification to prevent traffickers from going back on their promises.

COMPETING PRIORITIES

A fourth problem is that Peru and Colombia are faced with a growing guerrilla threat and that certain anti-drug programs sometimes work to the advantage of Marxist insurgent movements. This means that such policies won't get the support of important groups in South America -- such as the military.

A cornerstone of the White House's anti-drug strategy is to furnish aid to South America military establishments but I suspect that in Colombia and Peru most of this aid will be used to fight Communist guerrillas rather than to fight drug trafficking.

Let's look at the political realities in Peru and Colombia. In Peru's Upper Huallaga Valley, more than 100,000 farm families make a living from cultivating the coca plant -- the raw material for cocaine. Our efforts to shut down the cocaine trade and especially to use herbicides against coca have been a political bonanza for the deadly Shining Path guerrillas. That is, our programs have had the effect of increasing the ranks of Shining Path supporters in the Valley. The Peruvian military command in the Valley is trying to win hearts and minds for its counterinsurgency efforts by, in effect, protecting coca farmers and small coca paste manufacturers and even by developing working relationships with drug dealers.

In Colombia, we see the government going after the Medellin drug lords, confiscating their estates and freezing their bank accounts. But the drug thugs, who are cut in the political mold of Al Capone and Mussolini, are extremely hostile to the revolutionary left. During the mid and late 1980s, paramilitary armies financed by cocaine dealers were instrumental in dislodging Marxist guerrillas from strategically important areas of Colombia -- such as the Middle Magdalena Valley. This sanitation process received the tacit and active support of legitimate groups in Colombian society -- such as landowners, businessmen, and military commanders -- that perceive guerrillas as the priority national threat. But now with the government's crackdown and especially with the demise of Gonzalo Rodriguez Gacha, the narco-paramilitary groups are hard up for cash and a few have actually disintegrated. This has created somewhat of a power vacuum. Colombian army sources say that the most important Colombian guerrilla group -- the FARC -- has launched an offensive to recover its former strongholds in the

Middle Magdalena and other regions. The point is not to make value judgments about drug traffickers versus guerrillas -- obviously both groups are detestable. But I think you can see that there are some built-in political limits in South America to pursuing anti-drug policies that jeopardize other national security interests.

CONTAINMENT

The final point that I want to make is fairly self-evident -- that the cocaine trade is not containable within a specific country or region. The history of "successful" anti-drug campaigns is a history of metastasis -- whether the drug in question be marijuana, opium, heroin, or cocaine. Even if we spent a few billion dollars and came up with a workable eradication / crop substitution / and interdiction program in the Upper Huallaga Valley or the Bolivian Chapare, new grower-trafficker complexes would be likely to emerge in other regions, or countries, or continents. Coca is a hardy and adaptable plant which can probably grow in almost any tropical environment anywhere in the world. Cocaine laboratories can easily camouflaged or moved to more inaccessible locations. When the Colombian government launched its anti-cocaine drive last August after the murder of Luis Carlos Galan (a leading Presidential candidate), traffickers shifted some cocaine production capacity to Bolivia, Peru, Ecuador, Brazil and even Mexico. The same principle holds true for smuggling routes and methods for cocaine or for the chemicals used to manufacture cocaine. If we station a naval flotilla off Colombia's Caribbean coast, traffickers will move drugs through Central America and Mexico or they will switch to containerized transport -- which seems to be the smuggling mode of the future. All of this is to say that the main driving force behind the narcotics traffic is not the availability of supply but rather the voracious demand for drugs in the U.S. and other industrialized countries.

To conclude: for political and moral reasons, the U.S. can't simply bail out of the drug war in South America. Also, we have to do what we can to support the legitimate economies and the civilian institutions of cocaine source countries. There may be no easy ways to extricate ourselves from the cocaine morass. But I submit that our federal anti-drug dollars could be better spent on education, prevention and other demand-reduction programs here at home than on fighting an unwinnable war in South America. And there is some good news on the demand side. According to most national surveys, the number of regular cocaine users in the U.S. has declined fairly significantly since the mid-1980s. People seem to be getting the message that cocaine is a bad news drug -- so we should do what we can to accelerate this trend.

Senator BRYAN. Thank you very much, Dr. Lee.
Mr. Rutledge.

STATEMENT OF JOHN RUTLEDGE, LATIN AMERICA MANAGER, EXXON CHEMICAL CO.

Mr. RUTLEDGE. Mr. Chairman, Senator Burns, good morning. My name is John Rutledge. I am the Latin America Manager for Exxon Chemical Company.

I welcome the opportunity presented by the subcommittee to restate my company's abhorrence of the illegal diversion of any chemical anywhere and to describe briefly our procedures for preventing the diversion of the MEK and the acetone which we export to Colombia.

My submitted written testimony more fully describes our total support of the Chemical Diversion and Trafficking Act, reviews our cooperative efforts under way with the Drug Enforcement Administration and corrects some of the misconceptions which may have resulted from recent media coverage of the chemical diversion issue.

We in Exxon Chemical Company are confident that the products we manufacture and sell are not being diverted to illegal end-uses. If there was any indication or suspicion of illegal use, we would stop sales to that customer immediately. Each individual sale of the chemicals covered under the Act is cleared with the Drug Enforcement Administration. Chemicals are shipped only to customers who have been investigated by the DEA.

All of our shipments of methyl ethyl ketone or MEK and acetone to Colombia go in bulk shipments on parcel tankers. We do not export to Colombia any drums of the listed chemicals. In Colombia we export to only two customers: our 100-percent-owned affiliate and the National Oil Company of Colombia, commonly known as Ecopetrol. We do not use third parties to export these products to Colombia.

Ecopetrol consumes all of the product, all of the MEK that we sell to them, in one end-use, and that is the extraction of wax from lubricating oil, which makes that product suitable for automotive engines. This is an end-use which is common to all refineries around the world. MEK is the product of choice because of its versatility and powerful solvency characteristics.

As a matter of fact, that versatility of MEK makes it one of the most important and prevalent solvents in the world. U.S. production capacity of 600 million pounds by the four major producers in this country is but one-third of the worldwide capacity. Two-thirds of the worldwide capacity of MEK is in Europe, the Far East and Latin America.

I think it is also important to remember that MEK is not some esoteric compound with arcane end-uses. Rather, it is a common solvent used worldwide in countless industrial and commercial applications from lube dewaxing to coatings to magnetic tapes, and likely to the pencils and pens that are in front of you this morning.

Our estimate for the total legitimate market for MEK in Colombia is 12 million to 13 million pounds annually. This is in line with the amount of that product that is exported from the U.S. to Co-

lombia. The balance of our Colombian sales of MEK and acetone go to our affiliate, Exxon Chemical Del Sur. Our affiliate in Colombia does not sell to distributors, rather sales are made directly to end-use customers, and we know those customers very well.

Our sales in Colombia go 57 percent to the coatings industry, 27 percent to lube dewaxing, 5 percent to industrial adhesives, 5 percent to rubber cement manufacturers, 3 percent to shoe adhesive manufacturers and the remaining 3 percent divided among other documented applications. These sales are regulated under provisions of the Colombia chemical control laws, which require detailed and comprehensive approvals by several different ministries. Transportation of these controlled chemicals is strictly regulated by Colombia narcotics police force, the same group whose offices were bombed last December in an incident attributed to the drug cartel.

While the legal requirements in Colombia provide a framework to prevent diversion, our confidence that Exxon Chemical products are not being diverted to illegal end-uses also depends on the integrity of our Exxon Chemical staff and the training we provide to them.

We train our employees extensively, stressing our need to know the customers and to know the customers' requirements and the volume required to make the products that those customers manufacture. We maintain an ongoing monitoring effort to ensure that the sales to those customers are in line with their requirements. Our own employees routinely visit all customers to confirm information on plant size, types and volumes of products manufactured and consumption requirements to make these products. We have had none of our customers rejected by the DEA.

Exxon Chemical is in full compliance with the Chemical Diversion and Trafficking Act, whose passage we supported. Moreover, we fully cooperate with the Drug Enforcement Administration. We are sharing with the DEA not only all the relevant information on the MEK and the acetone customers, but also our own end-use analyses, market studies and the additional steps we are taking to modify our products so as to make them less useful in those illegal end-uses.

All of us at Exxon Chemical are vitally concerned about the drug problem. I hope my brief remarks this morning demonstrate that we are doing all we can to prevent diversion of our products.

Thank you, Mr. Chairman. I would be happy to answer any questions.

[The statement follows:]

STATEMENT OF JOHN RUTLEDGE, LATIN AMERICA MANAGER FOR EXXON CHEMICAL COMPANY [1]

My name is John Rutledge. I am the Latin America Manager for Exxon Chemical Company. My responsibilities include sales to Latin America of the chemicals covered under the Chemical Diversion and Trafficking Act 1988.

My objectives in appearing before this Subcommittee are basically four-fold. First, I want to restate on behalf of our entire Exxon Chemical organization our abhorrence of the diversion of any of our products for illegal or unintended end uses and our commitment to prevent that from happening. Secondly, I want to restate our total support for both the Chemical Diversion and Trafficking Act of 1988 (CDTA) and the Drug Enforcement Administration (DEA) for attempting to publicize this diversion problem and bring its about effective control. Third, I would like to explain how Exxon Chemical operates in Latin America and how those operations and the policies and procedures that we have implemented are designed to prevent diversion. Finally, I would like to correct some of the misconceptions which may have resulted from recent media coverage of the chemical diversion issue.

Exxon Chemical Company fully supports and complies with the CDTA. We assisted in the drafting of that legislation. Each of our worldwide export customers requiring certification under the Act has been approved by the DEA - we have had no customers rejected. We are working in full cooperation with the Drug Enforcement Administration and voluntarily sharing with the DEA our ongoing market analyses,

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1/ The attachments referred to in this statement were not reproducible.

import/export studies, product reformulation efforts and other ideas for helping to prevent diversion. We are also soliciting from the Drug Enforcement Agency ideas on how our programs might be further improved. In addition, we have been diligent in our support of the various conferences and meetings that the Drug Enforcement Agency has established as a way to educate the industry on both the diversion problem and the provisions of the Chemical Diversion and Trafficking Act of 1988.

Within the Chemical Manufacturers Association we have helped to establish a Diversion Task Group that is dedicated specifically to the challenge of preventing diversion of chemicals into illegal end uses. Exxon Chemical Company's Latin America Marketing Manager is a charter member of that task group and has been working virtually full time to enhance those efforts. Some specific areas of Task Group effort include the development of worldwide supply/demand information for all chemicals covered by the CDTA and distribution of DEA information on how these chemicals are used illegally. This information will enhance the industry's ability to detect possible diversion and better enable us to advance ideas on reformulating products to render them unusable for the illegal uses.

At this point I think it would be useful to explain the way in which Exxon Chemical operates, particularly in countries like Colombia, to show the steps which we take to prevent diversion. All of our sales of chemicals covered by the CDTA are cleared with the DEA prior to each individual shipment. Part of that clearance process involves ensuring that the products are going to customers who have been investigated by the DEA. Exxon Chemical exports two listed chemicals to Colombia, methyl ethyl ketone (MEK) and acetone.

Exxon Chemical Company has only two customers for these products in Colombia - our own affiliate, Exxon Chemical del Sur, to whom we export both MEK and acetone, and the National Oil Company of Colombia, Empresa Colombiana de Petroleo, S.A., or Ecopetrol for short, to whom we export MEK.

Ecopetrol consumes all the MEK we sell them in one application; the removal of wax from the lubricating oil feedstocks that make the oil usable in automotive engines. This is a use which is common to oil refineries all over the world; MEK is the most desirable solvent to be used in this process because of its versatility and powerful solvent characteristics and the fact that it may be used in conjunction with the hydrocarbon solvents present in this lube oil extraction process.

As a matter of fact, this versatility makes MEK one of the most important and prevalent solvents in the world. U.S. production capacity of 600M pounds by four major producers is about one third of the worldwide capacity; the remaining two-thirds of the MEK capacity is in Europe, Asia and Latin America. It is important to remember that MEK is not some esoteric compound with narrow uses, but rather a common solvent used worldwide in countless industrial and consumer applications from lube oil dewaxing to paints, to magnetic tapes, and very likely the staplers and ballpoint pens on your desks this morning, Senators.

The estimated total consumption of MEK in the U.S. is about 500 million pounds. As mentioned above, the end uses are numerous and a percentage breakdown is shown in the attached chart.

In Colombia, MEK is consumed in uses similar to those in the U.S., as shown by the attached chart. Our estimate for the total legitimate MEK demand in Colombia is 12M to 13M pounds, in line with the amount of MEK exported from the U.S. to Colombia.

Except for the MEK to Ecopetrol, all our sales of MEK and acetone go to our 100% owned affiliate, Exxon Chemical del Sur. Exxon Chemical del Sur has been operating in Colombia for over 22 years. Our staff is engaged in the blending, distribution, marketing and sales of a wide variety of products including synthetic rubbers, plastics, lubricating oil additives, oil field chemicals and solvents. Our organization is well aware of the potential for diversion of some of the products we sell and is dedicated to prevent that from happening.

Besides adherence to Exxon Chemical's own internal policies including our strict ethics policy, employees of our affiliate in Colombia comply with all of the provisions of the Chemical Control Laws in that country. While the legal requirements in Colombia provide a framework to prevent diversion, our confidence that Exxon Chemical products are not being diverted to illegal end uses primarily is based on the integrity and training of our employees. This extensive training stresses the need to know our customers; to know their end uses and the volumes that are required to make the products they manufacture. Our sales in Colombia go 57% to coatings, 27% to lube dewaxing, 5% to industrial adhesives, 5% rubber cement, 3% shoe adhesives, and 3% divided among other documented applications. We maintain an ongoing monitoring effort to ensure that the sales to these customers are in line with their requirements.

Colombian chemical control legislation was originally implemented in 1984 and was subsequently modified in 1986 and 1987. Currently, there are approximately 17 different chemicals on its list of controlled products including methyl ethyl ketone and acetone. In addition to MEK and Acetone the Colombian list also includes aliphatic solvents, hexane, ethyl acetate, methanol, butyl acetate, butyl alcohol and diacetone

alcohol. These provisions provide that the following conditions must be met before the sale of any controlled product in a volume greater than 11 lbs. is made:

- The salesman must get from the customer a Certificate of Existence and Legal Representation which includes an evaluation of the company, its social objectives, the purpose of the company and the type of business conducted in Colombia as well as the responsibilities of its designated legal representatives or their assigned substitutes, including their official identification numbers and registrations.

- Certificates of Commercial Responsibility from a financial institution such as a bank.

- Our sales engineer's report of an onsite visit to confirm the existence of the plant including information on the size of the plant, the type of facilities involved, the types of products being manufactured, the output volume of those manufactured products and a verification of the consumption requirements of raw materials to make those products.

- A valid certificate issued by the Colombian Justice Department testifying that there have been no previous infractions due to possession of controlled substances by the customer.

- The official resolution by the Colombian Department of Health certifying that the customer has registered its commercial and

industrial activities with that Department including the products manufactured and the raw materials required.

- An official, dated purchase order, identifying the products purchased, the quantities purchased and the price, signed by the customer.

- A letter written by the customer certifying that the material being purchased is in fact being used for its intended purposes.

- Approval by an internal Exxon Chemical committee comprised of multiple management levels for sales of these controlled products.

In addition, before any of these controlled products can be transported, the following conditions must be met:

- The customer must sign for and acknowledge responsibility for the product being picked up at our facilities.

- The customer must provide an appropriate vehicle for the transportation.

- The customer must send us a letter of authorization specifying the name of the transportation company, the identification number of that company, the name of the driver, the personal identification number of the driver, all registration information regarding the truck and the quantity of material being purchased.

- The driver must be approved by the local Narcotics Police Force in the area of the terminal who must stamp and approve the appropriate documents as authorization for transportation of that product to its final destination.

- The driver must submit to our personnel the official transportation form including information on the quantity of product being carried which must remain with the vehicle at all time.

- The driver must carry with him in addition, an envelope containing all appropriate documents issued by the various government agencies in Colombia.

Finally, I would like to address the last of my objectives - to correct whatever misconceptions may have resulted from various newspaper articles that have appeared on this subject. The article entitled "Cocaine Has a Made in the U.S.A. Label", written by Mr. Douglas Jehl and appearing in the Los Angeles Times of December 5, 1989, has become generally accepted as authoritative regarding chemical shipments to Latin America. I would like to address the various points of inaccuracy or incomplete statements that are found in that article:

- The article states that MEK is used to make rubber cement and that there are not nearly enough other products using MEK to justify the exports from this country. Our data indicate to the contrary. As described in our testimony, our figures indicate that legitimate end uses in Colombia approximate the 12M-13M lbs that are exported annually from the U.S. to Colombia.

- The article states that 9 out of 10 gallons of MEK exported from the U.S. to Colombia are diverted to cocaine production. Again, our figures, based on the market intelligence that we have gathered over the years, indicate that the legitimate market for MEK in Colombia is approximately 12M-13M lbs.

- The article states that 90% of the "13M tons" of American - made MEK imported by Colombia last year was believed diverted to cocaine laboratories. Neither we nor the DEA can substantiate this contention based on our information. Also the Colombian market is estimated to be 12M-13M lbs, not 13M tons.

- The article states that when Exxon Chemical was asked whether it was confident that the shipment of MEK would be used in legitimate industry that "the company did not answer directly". However, as the article itself points out, Exxon Chemical in its response did say that all of our shipments, including the one mentioned in the article, received DEA authorization after having undergone required reviews to establish that they are for legitimate purposes. As we have said on other occasions, we are totally confident that the material we are sending to Colombia is being used by legitimate businesses for legitimate purposes.

- The article says that many Latin American companies that regularly import American made chemicals are suspected of aiding the transfer to cocaine enterprises. It goes on to say the DEA has denied regular customer status for 41 firms. We have had none of our customers rejected by the DEA, and we can state unequivocally that

the two firms in Colombia to which we export materials, that is Empresa Colombiana de Petroleos S.A. and Exxon Chemical del Sur, are not engaged in the transfer of MEK to cocaine enterprises.

- The article states that "the exporters demanded of the Commerce Department that their identity not be made public." Companies such as Exxon Chemical which export the material from the U.S. do not demand anonymity. All of our customers for the chemicals covered by the CDTA are well known and documented to the DEA, and each sale to those customers are approved prior to each shipment. We do, however, make every effort to protect against public disclosure of the identities of our customers for commercial and security considerations.

- The article goes on to talk about leakage into cocaine traffic as occurring somewhere down the chain as large importers sell to smaller firms and they to others. "In Colombia authorities say such transfers are almost bound to end up in drug producers hands". Exxon Chemical del Sur does not sell to distributors. Rather, the products that we sell are transferred directly to our customers who use MEK in the production of specific products such as lubricating oils, paint, varnishes, and adhesives.

- The article said "Exxon was the exporter last August of an enormous 150k gallon shipment of MEK - more than 10 times the quantity the company plans to ship this week - that also went to Cartagena aboard the Catalina." In fact, a shipment of 150k gallons amounts to about 450 tons which is essentially the same amount as the

material that was shipped on the Catalina to Ecopetrol. More importantly, this amount of product is not "enormous" by marine transportation standards, rather a 400-500 ton parcel is the norm when shipping under this mode.

- The article alleges that Exxon and Shell have "annual capacities of 230M gallons". In fact Exxon, and Shell have production capacity each of approximately 230M pounds.

In addition, I would like to submit as a part of our testimony various letters written by Gene McBrayer, President of Exxon Chemical Company, to Mr. Shelby Coffey, Editor and Executive Vice President of the Los Angeles Times, to The Honorable Harry Reid, and to The Honorable William J. Bennett. Mr. McBrayer made a number of important points, which bear repeating.

First, Exxon Chemical totally supports the efforts of the Drug Enforcement Administration and is cooperating fully with the agency on all aspects of the Chemical Diversion and Trafficking Act of 1988. Through our membership in the Chemical Manufacturers Association, we vigorously supported the legislative initiative that led to the Act and have continued to work in full cooperation with the DEA in its implementation.

Secondly, Exxon Chemical provides to the DEA a complete list of all of its export customers and advance notice of each export shipment of chemicals covered under the CDTA. Under no circumstances do we ship to a customer without clearance by the DEA. The DEA is fully aware of all our export transactions involving these chemicals. All Exxon Chemical Company shipments to Colombia are in bulk tanker loads. We do not export any chemical products into Colombia in drums.

Third, we have procedures in place to verify that our customers

have legitimate end uses for the products we sell. We maintain these procedures through ongoing market research and customer analysis through our sales team in the countries in which we sell. In a country such as Colombia, our procedures complement the Colombian Government's strict regulations covering the use of controlled solvents. Exxon Chemical does not disguise its role as a responsible manufacturer and exporter. As stated earlier, we provide the DEA with all the information pertaining to export customers and shipments of listed chemicals covered by the CDTA. The Act provides for confidential handling of such information for security reasons. The safety of our personnel and security of our product shipments are of utmost importance to us as well as the Drug Enforcement Administration.

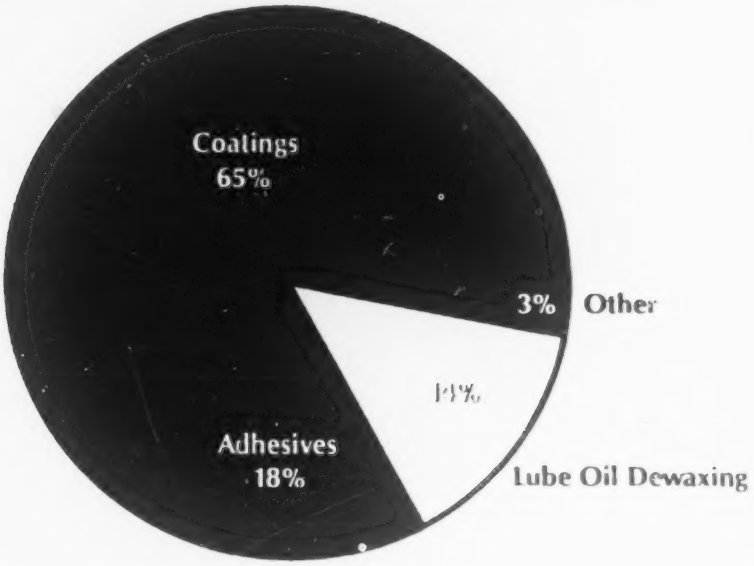
Finally, we have made a clear and unequivocal statement that if at any time we believe that our products are being used by a customer for illicit purposes, we will stop selling to that customer immediately.

Exxon Chemical is a responsible manufacturer and distributor of a multitude of chemical products in the United States and around the world. We have stated frequently that we abhor the problems created by cocaine and other illegal drugs, have instituted policies and procedures to prevent diversion of chemicals into illegal end uses, and will stop selling MEK or any other product to any customer demonstrated or suspected to be using our products for illict purposes.

We are pleased to have been invited to appear before this Subcommittee and welcome the opportunity to have stated clearly our positions.

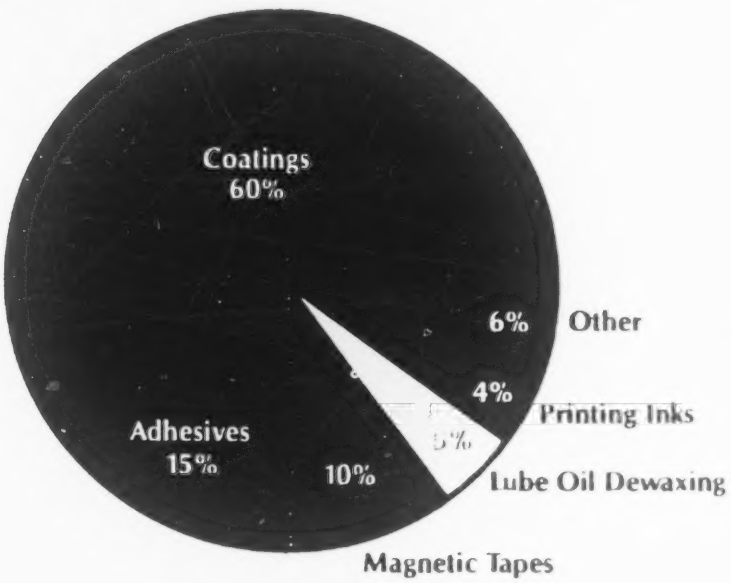
INJRM055

COLOMBIA MEK END-USE BREAKDOWN



Estimated Total Colombian Consumption = 13 Million Lbs.

U.S. MEK END-USE BREAKDOWN



Estimated Total U.S. Consumption = 510 Million Lbs.

Senator BRYAN. Thank you very much, Mr. Rutledge.
We will hear next from Mr. Coticchia.

STATEMENT OF DON COTICCHIA, GROUP VICE PRESIDENT, ASHLAND CHEMICAL CO., ON BEHALF OF THE CHEMICAL MANUFACTURERS ASSOCIATION

Mr. COTICCHIA. Good morning, Mr. Chairman and Senator Burns.

My name is Don Coticchia. I am a group vice president for Ashland Chemical Incorporated. Today I am testifying on behalf of the Chemical Manufacturers Association. I chair a CMA committee which addresses the issue of chemical diversion.

I have one message for the subcommittee today and that is: we do not do business with criminals. The U.S. chemical industry is accounting for the shipment of its products. Nevertheless, some of these products from foreign sources are being diverted to make illicit drugs. We want it stopped, and we will do all we can to help.

CMA and its member companies work closely with the Congress and the DEA in drafting the Chemical Diversion Trafficking Act of 1988 or CDTA. Our association is committed to the product stewardship concept embodied in the CDTA. Our effort grew from the long history of voluntary cooperation between CMA member companies and the DEA in investigating potential diversions of chemical shipments to illicit drug production.

CMA is confident that no CMA member company knowingly sells chemicals for the manufacture of illegal drugs. Despite continuing allegations that the U.S. chemical industry is supplying the major share of precursor and essential chemicals for the manufacture of illegal drugs in South America, the facts show that U.S. companies and U.S. origin chemicals are not chemical diversion offenders as some critics suggest.

The U.S. chemical industry represents an attractive target to those who would have the public believe the drug problem is rooted in unscrupulous manufacturers bent on reaping a profit at all cost. The fact is, however, that CMA and its member companies have demonstrated the resolve to help end our drug problems.

It is time to recognize that the industry has been and is an important resource for the effective control of chemicals and enforcement of the CDTA.

The diversion of chemical products is an international problem and needs an international solution. Let me give you an example of what I mean.

Potassium permanganate is one of the products needed by the South American cartels to make cocaine. In 1988 Colombian and U.S. authorities seized 12 million pounds of potassium permanganate from jungle laboratories. There was only one manufacturer of potassium permanganate in the United States. That company shipped less than 20,000 pounds of this material to Colombia in 1988 to an established customer, and only 60,000 pounds to all Andean countries.

Clearly, overwhelmingly, most of the captured material made its way to Colombia from other countries. Among the United States and its major trading partners, the CDTA is the only national diversion control program in place. More importantly, the CDTA rep-

resents an excellent model for a multi-lateral control effort aimed at preventing diversions regardless of the source of the chemical.

It is well established that unilateral controls such as the foreign policy controls under the Export Administration Act of 1979 can be most effective when consistently applied on an international basis. Controls on the diversion of legitimate chemical shipments are no different.

Imposing additional controls on U.S. chemicals will provide little incremental improvement in the diversion problem unless the CDTA is adopted by other countries producing or exporting precursor and essential chemicals.

Our policy goals should be broadened to include multilateral controls in preventing the illegal manufacture, distribution and use of drugs.

Using data developed by the Department of Commerce, CMA has analyzed the trade flows and values of U.S. exports of eight chemicals to seven Latin American countries. This detailed analysis is contained in our written statement.

The trade data indicate that the U.S. chemical industry cannot be the sole source of chemicals diverted to illegal drug manufacturing. In fact, the data suggest that a diversion control effort, based upon a multilateral approach governing all sources of essential chemical supply be the primary policy goal of the U.S. government.

In conclusion the U.S. chemical industry is fully committed to eliminating illegal drugs at their source. CMA strongly supports the implementation of the CDTA, but we also believe that an international diversion control effort employing a multi-lateral approach to regulate the supply of essential chemicals is needed to stop diversion.

[The statement follows:]

TESTIMONY OF THE
CHEMICAL MANUFACTURERS ASSOCIATION

I. Introduction

The Chemical Manufacturers Association (CMA) is pleased to submit this testimony on the efforts of the U.S. chemical industry in preventing illegal drug manufacturing. The industry, the Drug Enforcement Administration (DEA), and the Chemical Diversion and Trafficking Act of 1988 (CDTA), are important pieces in the overall effort to control diversions of legitimate chemicals. The chemical industry has a long record of cooperation with the U.S. government in diversion control, and recent attacks on the industry's role in drug manufacturing are both ill-informed and unwarranted. Although the CDTA should prove an effective management and enforcement tool, CMA is convinced that complete success in the war on drugs can only be achieved through multilateral diversion control efforts.

CMA is a non-profit trade association whose member companies represent 90 percent of the productive capacity for basic industrial chemicals in the United States. The imports and exports of CMA's member companies constitute an important factor in the Nation's balance of trade. The industry manufactures and exports chemicals regulated under the CDTA, and consequently has an interest in measures designed to prevent diversion of legitimate commercial products. More importantly, CMA and its members are committed to preventing the diversion of chemicals made in the United States.

Our testimony today responds to the Subcommittee's expressed concern over the diversion of legitimate chemicals shipments to drug manufacturing in Latin America. Chemicals made in this

country have been found in raids on illegal drug production facilities. Yet years before enactment of the CDTA, and continuing through the implementation of the Act, CMA's member companies have cooperated with U.S. authorities in identifying and preventing potential diversions. The industry's efforts stand as evidence to our commitment to halt illegal diversions, and have no doubt helped reduce the flow of drugs to the United States.

Despite continuing allegations that the U.S. chemical industry is supplying the major share of precursor and essential chemicals to illegal South American drug manufacturing, the facts show that U.S.-origin chemicals are not the problem some critics suggest. For some shipments--even those identified to the U.S. government -- there is a point beyond which a manufacturer cannot control the use of a given chemical. CMA has analyzed trade data for seven of the CDTA "essential" chemicals, which sheds considerable light on the problem. We present this data to prompt two fundamental inquiries: how do U.S. products actually get diverted, and whether the CDTA constitutes an effective control measure.

The U.S. chemical industry represents an attractive target to those who would have the public believe the drug problem is rooted in unscrupulous manufacturers bent on reaping a profit at all costs. The fact is, however, that CMA and its member companies have demonstrated the resolve to help end chemical diversion. It is time to recognize that the industry is an important resource for the effective control of chemicals and enforcement of the CDTA. Attacks on the chemical industry -- whatever the intent -- will not and cannot help stem the flow of illegal drugs. A national commitment to a multilateral drug

control effort will see the United States meet the goal of a drug-free America.

II. Trade Flows of Precursor and Essential Chemicals

The CDTA requires persons who distribute, import, and export 20 listed essential and precursor chemicals (and tableting and encapsulating machines) to identify their customers, maintain retrievable records, report suspicious orders, and provide advance notice to the Drug Enforcement Administration (DEA) of imports and exports of these chemicals. CMA and its member companies worked closely with Congress and the DEA in crafting the CDTA, and our association is committed to the product stewardship concept embodied in the Act. CMA is confident that no CMA member company knowingly sells chemicals for illegal drug end-uses. Other trade associations in the chemicals and allied products business, such as the National Association of Chemical Distributors, are also strong supporters of the CDTA and represent another important part of the solution to diversion.

There is evidence, however, that legitimate chemicals shipments have been diverted in the past to illegal drug manufacturers. A study conducted by the Central Intelligence Agency in 1987 indicated that increased imports of precursor and essential chemicals in South America were inconsistent with increases in legitimate chemical production, and suggested that diverted chemicals were responsible for the increase. More recently, the 35-page indictment returned against former Panamanian General Manuel Noriega alleged the diversion of chemical products to the Colombian drug cartel. At first glance, the data published by DEA tend to indicate a systematic problem of illegal

diversions. These reports may not provide a complete view of the diversion problem, however.

The Noriega indictment does not allege that the diverted chemicals were of U.S.-origin. The data reported by DEA does not provide a complete picture of the flow of precursor and essential chemicals from the United States, particularly to South America. DEA's analysis may in fact overstate the potential for diversion, at least insofar as the U.S. chemical industry is concerned. A comparison of export volumes over time, conducted by CMA, yields a more useful analysis than the percentage increases in dollar value of chemical shipments propounded as evidence of the diversion problem.

DEA reports that in 1988, 59,568 metric tons (131.1 million pounds) of essential chemicals were exported from the United States to Latin America. The Administration also states that it "is likely that a large part of these chemicals . . . were used in the clandestine production of cocaine." DEA, Chemical Handler's Manual 3 (Draft, August, 1989). DEA indicates that U.S. exports of methyl ethyl ketone (MEK) to Colombia increased more than 500 percent in the last two years, and that Peru and Colombia combined for 88.7 percent of U.S. potassium permanganate exports. Id. DEA also reports seizures of some 6,160,000 kilograms (kg) (12.5 millions lbs.) of potassium permanagate, 16,850 kg (37,000 lbs.) of acetone, and 6,250 kg (13,750 lbs.) of ethyl ether in 1988. Id. Although it is not clear whether these seizures reflect only those made outside the United States, the context in which the data are reported suggests the figures represent Latin American seizures of U.S.-origin chemicals.

Using data developed by the Department of Commerce, CMA has analyzed the trade flows and value of U.S. exports of eight chemicals to seven Latin American countries. Seven of the chemicals are listed as regulated, "essential" chemicals under the CDTA. Our analysis includes MEK, an essential chemical implicated in some reports on the diversion problem, and more particularly covered in the testimony of the Exxon Corporation and Shell Chemicals before the Subcommittee today.

Data on one of the chemicals analyzed by CMA, methylamine, was reviewed due to its possible future listing as a CDTA chemical by DEA. Data on another listed chemical, benzyl chloride, was not available. The data should be fairly representative of total U.S. exports of the chemicals to South America. A summary of our analysis is attached to this testimony (Attachments 1 and 2). CMA intends to supplement this data as additional information becomes available.

U.S. exports of the eight chemicals totaled 68.9 million pounds in 1988, or 15 percent of total U.S. exports of the chemicals by volume. The shipments were valued at $28.4 million in 1988, or 13 percent of the value of U.S. world exports in these chemicals. It is important to put this data in the context of the overall value of U.S. trade in chemicals -- the industry exported $32.3 billion of products and made a $12.4 billion positive contribution to the U.S. trade balance in 1988.

U.S. industry is the major supplier of the chemicals for legitimate uses to South America, largely for geographic and economic reasons. The 1988 figures, however, represent a decline in exports over the previous three years. The decline can be attributed primarily to increased local production of the chemicals, and the ready

availability of substitutes. Enhanced interdiction efforts probably played a part in the reduction, albeit a relatively small role.

CMA's analysis of the Department of Commerce data provides an interesting back-drop to the potential for diversion of these chemicals. MEK is the highest volume export of the eight chemicals reviewed. Colombia and Venezuela are the two largest recipients of U.S. MEK, with 12.8 and 8.69 million pounds respectively in 1988. Acetone and toluene are also significant exports to South America. Exports of the remaining five chemicals are negligible. Colombia and Venezuela receive nearly 65 percent of the essential chemicals shipped to the seven countries; Brazil received 18 percent of these exports. Peru and Bolivia imported the least of the countries studied.

Contrary to the 500 percent increase in MEK exports to Colombia reported by DEA, CMA's analysis shows that exports have remained fairly stable since 1986 (See Attachment 3). Colombia imported 13.9 million pounds of U.S. MEK in 1986, 11.5 million pounds in 1987, and 12.8 million pounds in 1988. Total U.S. exports of MEK peaked in 1987, while 1988 saw a 43-percent decline in MEK exports to the world (to 57 million pounds).

Although Peru and Colombia may be the largest recipients of U.S. potassium permanganate, there is only one U.S. manufacturer of the chemical. Total 1988 potassium permanganate exports to Colombia were 19,845 pounds, with Brazil the recipient of 37,485 pounds. The companies which receive U.S. potassium permanganate have had long-established relationships with the U.S. suppliers. Exports of all potassium compounds (including permanganate) to the seven Latin American countries reviewed by CMA were 1.21 million pounds.

DEA suggests that 6.16 million kg (12.5 million pounds) of potassium permanganate were seized in 1988. Assuming DEA's figures relate only to foreign seizures of permanganate, the U.S industry cannot be the sole source of the chemical.

CMA's analysis also indicates that little ethyl ether was exported to the seven countries (3,000 pounds to Colombia in 1988), and that U.S. exports of that chemical worldwide totaled only 460,000 pounds. The highly flammable nature of ethyl ether and its relatively simple production process make large volume exports uneconomical and unnecessary. DEA's focus on percentage increases in chemicals exports and imports tends to overemphasize the importance of volumes that in some cases total less than one thousand pounds.

CMA has also compiled some general information regarding precursor and essential chemical end-uses (See Attachment 4). Although we have not assessed the volume of legitimate uses in Latin America, the current export levels of essential chemicals appear largely consistent with legitimate end-uses. On the whole, the trade data indicate that smaller volumes of U.S. essential chemicals are being shipped to Latin America. U.S. industry should not blithly be considered the major source of essential and precursor chemicals to South American drug manufacturing.

In sum, recent trade data indicate that the U.S. chemical industry cannot be the sole source of chemicals diverted to illegal drug manufacturing. In fact, the data suggest that a diversion control effort centered in a multilateral approach -- governing all sources of essential chemical supply -- should be the primary policy goal of the U.S. government.

III. Implementation of the Chemical Diversion and Trafficking Act: Toward a Multilateral Approach

As we noted earlier, CMA supported the CDTA as a necessary measure in addressing the national problem arising from the abuse of drugs. Throughout the regulatory process, and continuing with DEA's ongoing implementation of the Act, CMA has maintained a cooperative approach with DEA. Representatives of CMA, other trade associations, and our member companies have met frequently with DEA to attempt to resolve particular procedural and interpretation questions. CMA especially appreciates DEA's willingness to discuss effective implementation of the CDTA, and we are pleased to note that considerable progress has been made in supporting DEA's enforcement goals under the Act.

CMA will not use this opportunity to testify on CDTA implementation -- our consultations with DEA to date have resulted in a productive, cooperative understanding of the respective roles of government and industry in the diversion effort. We fully expect that cooperation to continue in the future.

Among the United States and its major trading partners, the CDTA is the only national diversion control program now in place. The record-keeping and reporting requirements established by the Act provide DEA an important tool in tracking potential diversions. More importantly, the CDTA represents an excellent model for a multilateral control effort aimed at preventing diversions regardless of the source of the chemical. It is well-established that unilateral U.S. controls (such as the foreign-policy controls under the Export Administration Act of 1979) can be most effective when consistently applied on an

international basis. Controls on the diversion of legitimate chemical shipments are no different.

The United States is one of only four countries to ratify the Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, concluded under the auspices of the United Nations. Yet the Convention provides important opportunities for a multilateral approach to diversion control. See also 22 U.S.C. §2291 (international narcotics control). Although recent efforts to encourage diversion controls (such as S. 2045, recently introduced by Senator Reid) are laudable, CMA recommends that Congress focus attention on expanding the unilateral CDTA program to the international level.[1] Imposing additional controls on U.S. chemicals will not improve the diversion problem unless the CDTA (with any necessary modifications) is adopted by other countries producing or exporting precursor and essential chemicals. The United States is certainly not the only country threatened by illegal drugs; our policy goals should not be so narrowly focused as to exclude multilateral controls in preventing the illegal manufacture, distribution and use of drugs.

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[1]CMA notes that S. 2045 would regulate methyl ethyl ketone (MEK) as an essential chemical. MEK is already listed as an essential chemical under the CDTA, subject to the complete record-keeping, reporting and notification provisions of the Act.

IV. Conclusion

The U.S. chemical industry is committed to doing its part in helping eliminate illegal drugs at their source. The cooperative effort of the industry and the government under the CDTA has no doubt imposed a significant barrier to those intent on diverting chemical shipments to illegal drug production. The level of cooperation attained here at home, however, will only be effective once other chemical producing and exporting countries are convinced that diversion control is a necessary national policy. For their part, CMA and its member companies stand ready to assist the Congress, and the Drug Enforcement Administration, in the War on Drugs.

Attachment 1

1988 United States Dollar Exports by Country
(in millions)

Chemical	Panama	Brazil	Chile	Columbia	Venezuela	Peru	Bolivia	World
Toluene	$0.3	$0.0	$0.2	$0.0	$2.9	$1.0	$0.0	$61.2
Ethyl Ether	0.0	0.0	0.0	0.0	0.0	0.0	0.0	$0.6
Acetone	0.2	1.7	0.3	1.0	1.7	0.0	0.0	$44.0
Methyl Ethyl Ketone	0.3	1.9	1.1	5.7	4.3	0.2	0.0	$27.3
Acetic Anhydride	0.0	0.0	0.0	0.0	0.0	0.0	0.0	$0.0
Potassium Compounds	0.0	0.4	0.3	0.1	0.1	0.2	0.3	$39.9
Methylamine	0.0	0.3	0.1	0.3	0.4	0.0	0.0	$10.4
Benzyl Chloride	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hydriodic Acid	0.0	0.9	0.0	0.2	1.7	0.0	0.0	$32.9
Total	$0.8	$5.3	$2.0	$7.4	$11.1	$1.4	$0.3	$216.3

Total for Seven Countries $28.4
Percent of Seven Countries to World 13.1%

1988 United States Quantity Exports by Country
(in millions of pounds)

Chemical	Panama	Brazil	Chile	Columbia	Venezuela	Peru	Bolivia	World
Toluene	1.73	0.02	2.12	0.00	5.30	1.10	0.02	75.97
Ethyl Ether	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.46
Acetone	0.62	7.85	1.82	4.67	8.89	0.09	0.03	220.98
Methyl Ethyl Ketone	0.08	4.12	2.47	12.80	8.69	0.33	0.00	56.93
Acetic Anhydride	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Potassium Compounds	0.00	0.33	0.26	0.10	0.04	0.04	0.44	26.18
Methylamine	0.00	0.24	0.12	0.69	0.32	0.00	0.00	17.24
Benzyl Chloride	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hydriodic Acid	0.07	0.39	0.02	0.21	2.83	0.02	0.00	64.96
Total	2.49	12.95	6.81	18.49	26.07	1.58	0.48	462.70

Total for Seven Countries 68.9
Percent of Seven Countries to World 14.9%

Compiled 10/20/89

Attachment 2

1988 United States Dollar Exports by Country
Percent to World Total

Chemical	Panama	Brazil	Chile	Columbia	Venezuela	Peru	Bolivia
Toluene	0.5%	0.1%	0.4%	0.0%	4.8%	1.7%	0.0%
Ethyl Ether	0.0%	0.0%	0.0%	1.5%	0.0%	0.8%	0.0%
Acetone	0.4%	3.9%	0.8%	2.3%	4.0%	0.1%	0.0%
Methyl Ethyl Ketone	1.1%	7.1%	4.0%	21.0%	15.6%	0.6%	0.0%
Acetic Anhydride	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Potassium Compounds	0.0%	0.9%	0.7%	0.3%	0.2%	0.4%	0.7%
Methylamine	0.0%	3.3%	0.6%	3.2%	3.7%	0.0%	0.0%
Benzyl Chloride	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hydriodic Acid	0.1%	2.9%	0.1%	0.6%	5.1%	0.0%	0.0%

1988 United States Quantity Exports by Country
Percent to World Total

Chemical	Panama	Brazil	Chile	Columbia	Venezuela	Peru	Bolivia
Toluene	2.3%	0.0%	2.8%	0.0%	7.0%	1.4%	0.0%
Ethyl Ether	0.0%	0.0%	0.0%	0.6%	0.4%	0.2%	0.0%
Acetone	0.3%	3.6%	0.8%	2.1%	4.0%	0.0%	0.0%
Methyl Ethyl Ketone	0.1%	7.2%	4.3%	22.5%	15.3%	0.6%	0.0%
Acetic Anhydride	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Potassium Compounds	0.0%	1.3%	1.0%	0.4%	0.2%	0.2%	1.7%
Methylamine	0.0%	1.4%	0.7%	4.0%	1.8%	0.0%	0.0%
Benzyl Chlor[illegible]	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hydriodic Acid	0.1%	0.6%	0.0%	0.3%	4.4%	0.0%	0.0%

Compiled 10/20/89

Attachment 3
Exports of Precursor Chemical Quantities
(all numbers in millions)

United States Exports - To the World

	Toluene	Pct Chg	Ethyl Ether	Pct Chg	Acetone	Pct Chg	Methyl Ethyl Ketone	Pct Chg	Acetic Anhydride	Pct Chg	Methylamine	Pct Chg	Potassium Permanganate	Pct Chg	Hydriodic Acid	Pct Chg
1984	40.5		3.7		83.7		62.0		34.0		n/a		n/a		46.9	
1985	28.2	-30.4%	1.2	-67.6%	88.1	5.3%	77.5	25.0%	11.3	-67.5%	n/a		n/a		43.4	-7.5%
1986	26.8	-5.0%	1.7	41.7%	84.1	-4.5%	95.0	22.6%	0.0	0.0%	n/a		n/a		49.8	14.7%
1987	134.0	403.0%	0.6	-64.7%	259.7	208.8%	100.0	6.1%	0.0	0.0%	5.7		55.0		48.1	-3.4%
1988	76.0	-43.6%	0.5	-16.7%	221.0	-14.9%	57.0	-43.5%	0.0	0.0%	17.2	201.0%	26.2	-52.4%	67.0	39.3%

United States Exports - To Columbia

	Toluene	Pct Chg	Ethyl Ether	Pct Chg	Acetone	Pct Chg	Methyl Ethyl Ketone	Pct Chg	Acetic Anhydride	Pct Chg	Methylamine	Pct Chg	Potassium Permanganate	Pct Chg	Hydriodic Acid	Pct Chg
1984	0.000		0.001		3.9		7.0		0.324		n/a		n/a		0.143	
1985	0.000		0.029	2800.0%	3.3	-15.4%	7.5	-3.0%	0.043	-86.7%	n/a		n/a		0.015	-89.5%
1986	0.003		0.001	-96.6%	3.5	6.1%	13.9	85.3%	0.000	0.0%	n/a		n/a		0.036	140.0%
1987	0.000	-100.0%	0.002	100.0%	3.4	-2.9%	11.5	-17.3%	0.000	0.0%	0.495		0.004		0.074	105.6%
1988	0.002		0.003	50.0%	4.7	38.2%	12.0	11.3%	0.000	0.0%	0.694	40.2%	0.101	20.2%	0.212	186.5%

Attachment 4

Legitimate Uses for Precursor and Essential Chemicals Regulated by the Chemical Diversion and Trafficking Act

Listed Precursor Chemicals

Chemical	Legitimate Uses
Anthranilic acid and its salts	Dyes, drugs, perfumes and pharmaceuticals.
Benzyl cyanide	Organic synthesis.
Ephedrine, its salts, optical isomers, and salts of optical isomers	Medicine.
Ergonovine and its salts	None.
Erogotamine and its salts	None.
N-Acetylanthranilic acid and its	Chemical.salts
Norpseudoephedrine, its salts, optical isomers, and salts of optical isomers	Medicine.
Phenylacetic acid and its salts	Perfume, medicine, manufacture of penicillin, fungicide, plant hormones, flavoring, laboratory reagent.
Phenylpropanolamine, its salts, optical isomers, and salts of optical isomers	Medicine.
Piperidine and its salts	Solvent and intermediate, curing agent for rubber and epoxy resins, catalyst for condensation reactions, oils and fuels, complexing agent.
Pseudoephedrine, its salts, optical isomers, and salts of optical isomers	Medicine.
3,4-Methylenedioxyphenyl-2-propanone	

Listed Essential Chemicals

Import and Export Distribution

Acetic anhydride	Cellulose acetate fibers and platics, vinyl acetate, pharmaceuticals, dyes, perfumes, exploxives, etc., aspirin, esterfying agent for food starch.
Acetone	Chemicals, paint, varnish and lacquer solvent, cellulose acetate, solvent for potassium iodide andpermanganate, delusterant for cellulose acetate fiber, specification testing of vulcanized rubber products.
Benzyl chloride	Dyes, intermediates, benzyl compounds, sythetic tannins, perfumery pharmaceuticals, manufacture of photographic developer, gasoline gum inhibitors, penicillin precursors, quaternary ammonium compounds.
Ethyl ether	Manufacture of ethylene and other chemical synthesis, industrial solvent, analytical chemistry, anesthetic, perfumery, extractant.
Hydriodic acid	Perparation of iodine salts, organic preparations, analytical reagent, disinfectant, pharmaceuticals.
Potassium permanganate	Oxidizer, disinfectant, deodorizer, bleach, dye, tanning, radioactive decontamination of skin, reagent in analytical chemistry, medicine, manufacture of organic chemicals, air and water purification.

2-Butanone (methyl ethyl ketone)	Solvent in nitrocellulose coatings and vinyl films, "Glyptal" resins, paint removers, cements and adhesives, organic synthesis, manufacture of smokeless powder, cleaning fluids, printing catalyst carrier, lube oil dewaxing, acrylic coatings.
Toluene	Aviation gasoline and high-octaine blending stock; benzene, phenol, and caprolactam, solvent for paints and coatings, gums, resins most oils, rubber, vinyl, organosols; diluent and thinner in nitrocellulose lacquers; adhesive solvent; chemicals; source of toluenediisocyanates; explosives; toluene sulfonates; scintillation counter.

Source: The Condensed Chemical Dictionary, Ninth Edition. Gessner G. Hawley (editor). Van Nostrand Reinhold Company, New York, 1977.

Senator BRYAN. Thank you very much, Mr. Coticchia.
Mr. Simmons, we will hear from you, sir.

STATEMENT OF RUSS SIMMONS, VICE PRESIDENT, PECTEN CHEMICALS, INC.

Mr. SIMMONS. Thank you, Mr. Chairman, Senator Burns. Good morning. I am Russ Simmons, Vice President of Pecten Chemicals, Inc. Pecten Chemicals is a wholly-owned subsidiary of Shell Oil Company and was incorporated in 1980 to market Shell Oil's chemicals outside the United States.

Pecten Chemicals supplies the export market with a wide range of chemical products. Among these products are commodity solvents such as methyl ethyl ketone, sometimes referred to as 2-butanone and/or MEK, acetone and toluene.

These chemicals are used broadly throughout the economy in the production of lubricating oils, paints, adhesives, cellulose acetate, cosmetics, pharmaceuticals and a multitude of other legitimate end uses.

They are commonly found in household and paint products and can be purchased in local hardware stores throughout the U.S. in pint, quart or gallon containers.

MEK, acetone, and toluene are three chemicals among some 20 which the Drug Enforcement Administration (DEA) has identified as being used to make illegal drugs.

Pecten sales over the last five years to Latin America are documented in Attachment A. In every instance Pecten sells these chemicals to or in cooperation with Royal Dutch Shell affiliates in the Latin American countries. We do not directly market these materials to independent brokers or distributors for export. All Pecten sales of these products are made in bulk quantities and not in drums.

Some have asked why we don't stop selling these materials to Colombia or other Latin American countries. Firstly, Pecten has been supplying Shell Colombia since 1980, and Shell Colombia has been supplying some of its customers for as much as 20 years.

Secondly, it is our understanding that the DEA does not want to disrupt the legitimate economy of the countries of Latin America, nor do they wish to affect the legitimate use of these commodity solvent materials.

Moreover, we understand that the DEA prefers that the legitimate market be supplied by companies that produce these products in the United States and which are subject to U.S. controls.

We believe that the market would be supplied by others if American companies withdrew. As mentioned previously, currently only the U.S. has any controls regarding the export of these materials. Other countries are free to export into the Latin American economy without advising or working with the DEA, and it is our understanding that such exports do take place.

Pecten, Shell Oil and Shell Colombia have all cooperated in every way with the DEA and we will continue to do so. We have volunteered information to the DEA beyond its requirements, including providing an educational seminar regarding the manufacture and legitimate use of the materials in question.

Moreover, Shell Colombia has worked diligently on its own and with the DEA to insure that its sales are made only to legitimate end users. Shell Colombia's procedures and customer list have been reviewed by the DEA and the DEA has not objected to any shipments to Shell Colombia.

If there is any suggestion that a customer is diverting supplies to the illegal market, Shell Colombia has committed to cease supply to that customer immediately and will notify the DEA. In spite of these controls there remains a possibility that some material intended for legitimate use could slip into the hands of the drug trade.

Let me reemphasize, however, that if Shell Colombia or we become aware of or even suspect that materials are being diverted for illicit purposes, sales to that customer involved will be stopped immediately and the DEA advised.

Shell and Pecten would be willing to support even tighter prudent controls that reduced the chance that these materials could fall into the hands of an illegal drug manufacturer. Such controls might include a stricter customer certification system by the DEA or the Colombian government.

Another technique might be to blend the materials with other chemicals rendering them less usable for illegitimate purposes. For example, Shell Colombia is already test marketing a blended solvent as a replacement for the pure chemicals in certain end uses.

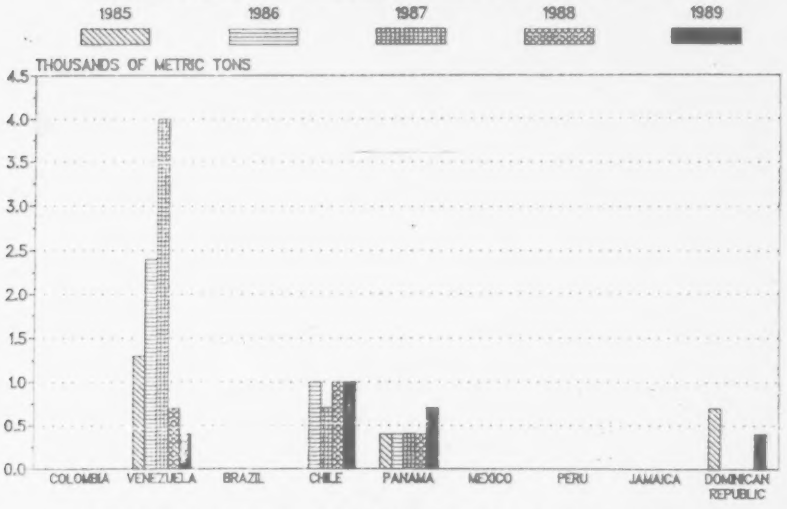
In summary, we support the DEA and its efforts to eliminate the diversion of chemicals for illegitimate purposes. We stand ready to help the DEA. We support efforts to find new and unique ways that could be used to stop the diversion of these materials.

We believe our dealings with the DEA and other governmental authorities demonstrate this commitment. Thank you for this opportunity to speak to you today.

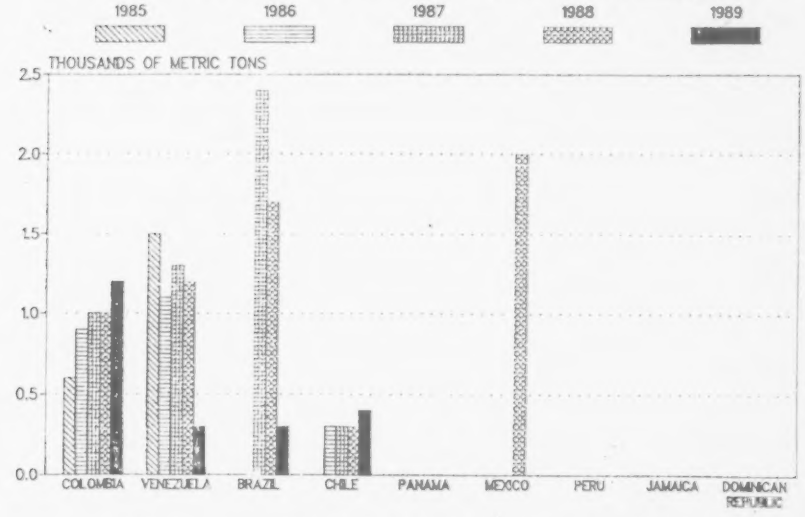
[The attachments referred to follow:]

ATTACHMENT A

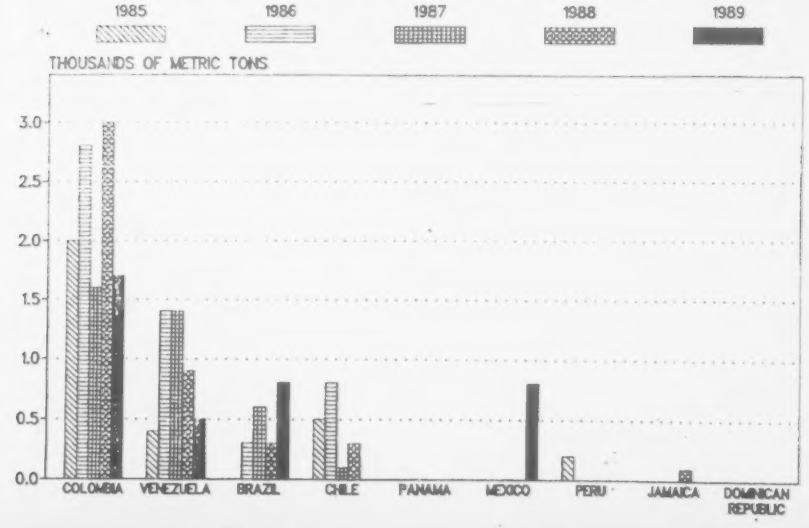
PECTEN CHEMICAL TOLUENE SALES TO LATIN AMERICA



PECTEN CHEMICAL ACETONE SALES TO LATIN AMERICA



PECTEN CHEMICAL MEK SALES TO LATIN AMERICA



Senator BRYAN. Gentlemen, thank you. We thank all of the panel, and let me just preface my comment to those of you who represent chemical companies. I speak on behalf, I am sure, of the full subcommittee who particularly appreciates your appearance here today. I think it needs to be noted for the record that not all of your contemporaries were willing to make an appearance today, and the fact that you are here, we do appreciate it.

Let me make a couple of observations and then try to frame some questions.

You have heard the testimony about the CIA report of a year ago indicating the rather astonishing increase—and I am going to use the term critical chemicals, gentlemen, to include both the essential chemicals which your testimony has focused on as well as the precursor chemicals which are defined, as you know, in our act separately and defined as such.

But the thrust of the CIA report is that in the Andean region the exports have increased dramatically. You have heard the testimony of Mr. Haislip that he estimates perhaps 40 to 70 percent of the exported product to Colombia actually makes its way into the clandestine lab system. Do you disbelieve this and if you do, do you have any information or data to suggest where the CIA and the DEA and others who have commented on this may be awry?

And I would just toss that to any one of the three of you from the industry.

Mr. Rutledge, you seem to be the courageous one to respond to that.

Mr. RUTLEDGE. Mr. Chairman, I believe that first of all, we remain confident that the product we export to Colombia through the limited customers that we serve is not being diverted. I believe that the figures to which Mr. Haislip was referring referred to the share of total imports in Colombia that he believes are being diverted.

As was noted by Mr. Haislip and some others, there is a significant amount of product coming into Colombia or going to Colombia from other countries from around the world.

Senator BRYAN. Well, I think that may be true, Mr. Rutledge, but implicit in the testimony, Mr. Haislip, is that before the enactment of this legislation, the American market share was proportionately larger. The reasonable inference that can be drawn from that, it seems to me, is that the American market may have been a larger part of the contributing part to the clandestine lab operation, a gap which may, in fact, be being filled by the European suppliers, and I would agree with all of your comments that it is a multi-lateral focus.

I think we would all agree on that. Nevertheless, I mean, the clear implication is that prior to the effective date of the act and continuing that there is a good amount of American exported product, and I am not making any specific allegation, Mr. Rutledge, with respect to your company or yours, Mr. Coticchia, or yours, Mr. Simmons, but clearly there seems to be a hell of a lot of it getting through and a lot of it coming from America or is that a conclusion that we are falsely premising?

Mr. RUTLEDGE. Mr. Chairman, the—our sales to Colombia over the past seven to eight years have grown in the case of MEK of

about five percent a year. This is in line with the industrial production.

The growth of our acetone exports to Colombia actually was nonexistent. There is less being exported—there was less in 1989 than 1982. We do not export toluene to Colombia.

Senator BRYAN. Mr. Coticchia, Mr. Simmons, again, I am not making a specific accusation focused on your particular companies, but clearly if the information which the CIA has released in the report of a year ago and the commentary by Mr. Haislip this morning is to be believed, then I must say that the Senator is persuaded that that information is accurate, we have got a hell of a problem, do we not?

Mr. SIMMONS. Well, I would support some of the conclusions that Mr. Haislip or most of the conclusions that Mr. Haislip made this morning, one of which was that we were probably ignorant of many of these activities prior to this becoming a central issue of focus a few years back.

It is not normally a part of the chemical education, the manufacture of cocaine, but from Shell's side—and so we have become aware and more focused on the problem. But on Shell's side we can only assure that our affiliate company in Colombia is making sincere efforts, has made sincere efforts over the last number of years to make certain that every single customer is a legitimate consumer of the products and that if there is any suspicion, they drop them from their list.

Senator BRYAN Mr. Coticchia, I have not given you a chance.

Mr. COTICCHIA. Mr. Chairman, I would not be surprised if the total 40 to 70 percent that Mr. Haislip referred to comes totally from other countries. If you remember the example I cited, our manufacturers ship 60,000 pounds to the Andean countries, and they confiscated 12 million pounds, and so proportionately it is unbelievable what can come in from other countries.

And I think Mr. Rutledge said that the four manufacturers in the U.S. only produce one third of the MEK that is produced around the world. So, it would not be surprising if the other 40 to 70 percent that is imported into Colombia comes from other countries.

Senator BRYAN. Mr. Coticchia, is that not a little bit of a head in the sand attitude? You heard Mr. Haislip testify that with respect to Colombia, that three out of four, 76 percent of the designated customers which companies that are exporting from the United States—admittedly that includes some multinational companies as well as American wholly owned companies—that three out of four of the names which are submitted to the DEA are rejected and that some of those are rejected after a rather perfunctory check to call to see if there is a phone number. There is no address, there is no bona fides.

Again, I make no specific accusation, sir, about your company, but unless Mr. Haislip is fantasizing this information, that is saying that right here in the United States three out of four that are being designated as regular customers, which is a term of art, as you know, in the act, are not bona fide, and some are clearly scams. Others maybe they are not able to affirmatively establish.

How do you respond to that kind of statement?

Mr. RUTLEDGE. Mr. Chairman, perhaps I could respond in part. The DEA, of course, got a list of the customers to whom we sell. They visited our offices in Colombia and, based on the conversations, verified that the customer list we provided to the DEA here in the United States matched the customer list we have in Colombia. None of our Colombian customers were rejected.

Senator BRYAN. Mr. Rutledge, let me just focus the question specifically.

Ecopetrol, if I am pronouncing that correctly, is a government subsidiary in Colombia?

Mr. RUTLEDGE. It is the national petroleum company owned by the Colombian government.

Senator BRYAN. I am not specifically making an accusation about any of your companies. I want to get the focus a little broader because I think the problem is broader. The evidence also pretty clearly indicates that some legitimate end users—that is, companies that have a bona fide need in an industrial legitimate use—also are part of the trafficking process.

Hypothetically, a soap company that may need a quantity of whatever it might be, 20,000 metric pounds, orders 80,000 metric pounds, 20,000 of which it uses legitimately for its own operations and the other 60,000 it then moves into the market.

To what extent, Mr. Rutledge, I ask you with respect to this government subsidiary, do you monitor the volumes that go to it in terms of its own legitimate needs?

Mr. RUTLEDGE. Mr. Chairman, we monitor the volumes going to Ecopetrol very carefully. I would like to add that we have sold to Ecopetrol for the past eight to ten years. My records only went back eight years. With the exception of one year, they have bought in every one of those eight years the identical amount; that is, 800 tons.

Senator BRYAN. So you are seeing a constant amount?

Mr. RUTLEDGE. Yes, absolutely. Of course, we visit the refinery that they are operating it to dewax the lubricants, as I indicated.

Senator BRYAN. I think all of us understand that these chemicals have a legitimate industrial use. I think there is no fundamental disagreement.

In your testimony, Mr. Rutledge, you raised a question that I wanted to follow up on. You indicate that you do have a procedure internally to monitor these things and that you very carefully supervise your employees to make sure that they are in effect shipping only to legitimate users.

I guess my question would be do you have any examples of discipline for an employee who may have been less than attentive? I am referring now to the shipment and not some other company violation.

Mr. RUTLEDGE. Yes. Thank you. I am proud to say that we have not had any instances where our employees have been implicated in that sort of activity. We visit our customers regularly. We do verify that they need the products that they order and that the products are used legitimately. Sales to our customers in Colombia can only be approved by an anonymous committee made up of four members of our organization in Colombia.

So there is an effort there to prevent any subversion of our employees.

Senator BRYAN. Mr. Rutledge, this is my last question to you, although I am going to ask the other two gentlemen who sit to your right a few more questions.

The act has only been in operation for a relatively brief period of time, but from your perspective you are representing yourself here as wanting to be a responsible part of the solution, and that is clearly the thrust of your testimony.

Let me ask you if there are any recommendations you would make to this Congress to change the act to make it more effective to do a better job than what you indicate is your company policy to prevent the diversion of these chemicals to the cocaine manufacturing labs in the Andean region?

Mr. RUTLEDGE. Well, of course, we have supported the Chemical Diversion and Trafficking Act, and we have been working in cooperation with the Drug Enforcement Administration. We certainly applaud the efforts of that organization, and we want to do everything we can to help them.

I think the statements that have been made today with regard to extending the type of rules that exist under the Chemical Diversion and Trafficking Act to other countries is most important, and we would certainly like to see that happen.

Senator BRYAN. Thank you.

Mr. Simmons, let me ask you a couple of questions. You state in your prepared testimony that you would support a stricter customer certification system by the DEA.

Do I understand that to be what you intend?

Mr. SIMMONS. Let me try to explain.

As we were advised by our affiliate, Shell Colombia, they strictly monitor what a customer consumes and what they sell to that customer. They are very careful about that. They also have a committee similar to the type mentioned by Mr. Rutledge to monitor every single transaction that is carried out.

As I have also said in the testimony, there does exist the possibility that once that legitimate customer consumes a product and it goes to their door, what happens to it then is not as closely monitored.

Now if the Colombian government would institute some sort of certification process or a registration process of some sort that could be enforced to monitor what is done with that material and how it is shipped out of the plant, then that would do a lot towards avoiding the question that you pointed out, that the product may be diverted once it goes to that legitimate customer.

So that is primarily what I am emphasizing.

Senator BRYAN. We welcome your constructive suggestion. I must say that when CMA testified before the House Select Committee on Narcotics last year, that issue was raised. They opposed it, as you know. So we appreciate what you are testifying to here today.

Let me ask you. You have prepared a chart here, Mr. Simmons, which indicates with respect to Pecten Chemical MEK sales. Now, as I understand it, MEK is an essential chemical as opposed to a

precursor chemical. I invite your attention to the Colombia volume which your chart indicates for 1985, 1986, 1987, and 1989.

Are you tracking with me, Mr. Simmons?

Mr. SIMMONS. Yes, I am.

Senator BRYAN. I guess the unsophisticated thing in this process that immediately catches my eye is that the volume of MEK sales by Pecten to Colombia has rather dramatically been reduced from a high of 3,000 metric tons in 1988 to about 1.7 metric tons in 1989. I also note that Mexico has absolutely skyrocketed from a baseline that does not even exist on this chart prior to 1989.

I ask the question because my own suspicions indicate to me that it might be possible that the diversion process may be occurring through Mexico. There is no evidence that I have seen—and you may care to offer some if you know—that the amount of processing in Colombia is reduced in the clandestine laboratories. Hence, one would think that the volume needed to sustain that operation is at least as great as and probably greater than previously, although the volume is being reduced here and yet Mexico is increasing.

Maybe you could give us your own interpretation of that chart.

Mr. SIMMONS. I can certainly give you the details later on if I cannot explain it thoroughly here, which I may not be able to do.

There is infrastructure in the chemical industry in Mexico that I think explains this. Your question, I think, and observation is well formed. There are producers in Mexico or were producers in Mexico of MEK.

I guess I really would prefer to give you those details in further information, because I really cannot explain it precisely. It is really an infrastructure problem in Mexico. Production ceased. There were price controls down there. They had no means of supporting their legitimate MEK industry. So imports increased to Mexico.

If you would like those details, I could provide them.

Senator BRYAN. Mr. Simmons, it was not the purpose of this Senator to blindside you. You provided that chart as part of your testimony. We will give you an opportunity to supplement the record on that.

[The following information was subsequently received for the record:]

Pecten Chemicals

Pecten Chemicals Inc.
A Subsidiary of Shell Oil Company
One Shell Plaza
P.O. Box 4407
Houston, Texas 77210

February 13, 1990

The Honorable Ernest F. Hollings
United States Senate
Committee on Commerce,
Science and Transportation
Washington, DC 20510-6125

Dear Senator Hollings:

On February 6, 1990 I testified on behalf of Pecten Chemicals Inc., the international marketing subsidiary of Shell Oil Company, at a hearing of the Foreign Commerce and Tourism Subcommittee of the Senate Commerce, Science and Transportation Committee. At that time Senator Richard Bryan asked me a question concerning Pecten's sales of methyl ethyl ketone (MEK) to Mexico.

Senator Bryan's question was based on the observation that while Pecten's MEK sales to Colombia have decreased, sales to Mexico went up dramatically. He questioned if product sold to Mexico could be smuggled to Colombia to replace sales not made directly to that country. I answered that I understood there had been a basic change in the Mexican chemical industry and that I would be glad to prepare a detailed written explanation for the record of proceedings.

That explanation is as follows:

The reason Pecten began supplying MEK to Mexico during 1989 is that in 1988 the Mexican government placed a price freeze on many products produced and sold in Mexico, including MEK. That same year prices for MEK and secondary butyl alcohol (SBA) the raw material used to make MEK, rose substantially because of supply shortages. SBA was not available in Mexico and had to be imported. Celanese Mexicana, the only local producer of MEK with a capacity of 18 million pounds (8,000 metric tons) had to absorb increasing raw material prices but was unable to raise its MEK price due to the price freeze. As a result, Celanese Mexicana discontinued production during 1988 and subsequently disassembled the plant.

Since the shutdown of the Celanese Plant all MEK used in Mexico has been imported. In 1989 Pecten decided to pursue a position in the MEK market in Mexico and will continue to pursue a like course in 1990.

There is a legitimate market for MEK in Mexico and I have no reason to believe any Pecten customers there are diverting chemicals to Colombia.

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Senator Bryan also asked a question concerning our parent company Royal Dutch/Shell and what it is doing to help stop the diversion of chemicals. I would like to take this opportunity to elaborate on the answer I gave at the hearing.

Over the last five years, the vast majority of the Shell supply of essential chemicals to the Andean Region of Latin America have been by Pecten Chemicals. Usually when supply has emanated from Europe it has been because of disruptions in the Pecten supply system.

Since the final regulations implementing the Chemical Diversion and Trafficking Act (CDTA), all sales of acetone, and MEK to Shell Colombia (toluene is not supplied) have been made entirely by Pecten Chemicals and are, therefore, fully subject to the controls imposed by the CDTA, administered by the DEA. At the present time none of these chemicals are being directly supplied to Shell Colombia from Shell Companies in Europe and there is no intention to do so. In the event, however, of a future disruption in supply from Pecten/Shell Oil, Pecten sales to Shell Colombia or other Andean countries may be temporarily augmented by supplies from the Shell Companies in Europe. If this is done, the Shell Companies involved in such sales have committed to provide all necessary information to the DEA prior to shipment.

In addition, since the final regulations implementing the CDTA in the United States, European governments have also become increasingly concerned with the diversion problem. In France, for instance, the Home Ministry has asked the chemical companies to provide lists of customers (consumers and distributors) and to disclose the quantities manufactured, purchased and exported. In the United Kingdom a bill was enacted to enable the U. K. to cooperate more fully with other countries in the investigation and prosecution of criminal offenses, with particular stress on the problem of chemical diversion and trafficking. Independently, the European Shell companies tightened their measures to control the legitimate use of the chemicals in question by their customers, especially by resellers; e.g. Shell Nederland Chemie demand from resellers a written declaration that the product will not be resold to customers in Colombia. Shell Companies in Andean and non-Andean countries where diversion is a potential problem take measures to prevent products falling into misuse. If at any time there is a suspicion that the chemicals could be diverted to an illegitimate use, the sale will not be made.

Thank you for the opportunity to clarify these issues.

Sincerely,

Russell C. Simmons
Vice President

Mr. RUTLEDGE. Mr. Chairman, I might provide some information. The producer of MEK in Mexico is Celanese Mexicana. Celanese Mexicana used to import raw material and then produce MEK. Our understanding is that sometime in 1987 or 1988 they stopped the production of their own MEK and imported the MEK. So I am not sure that the total utilization of MEK in Mexico changed over the time period.

Senator BRYAN. I appreciate your observation.

Mr. Simmons, you represent a company which is multinational in scope worldwide in terms of its reach and its ambit. You have indicated that your company wants to work with this legislation that was enacted.

Let me ask you this. With respect to that part which I call Royal Dutch Shell if I incorrectly designate the umbrella corporate organization, you heard the testimony that increased quantities of these critical chemicals are coming from two European countries primarily, the Netherlands and West Germany. What is Shell doing with respect to the exported product that comes not through its American subsidiaries but internationally? Have you self-imposed upon yourselves as a company, albeit you may not violate the law of the Netherlands or any other country in which you are doing business and from which you are exporting these chemicals? What is Shell doing?

Mr. SIMMONS. First of all, I have to point out that Shell Oil and its subsidiary, Pecten Chemical in this regard, is an independent operation from the Royal Dutch Shell organization, and I can only tell you what I understand about Royal Dutch Shell.

I understand they are also employing strict measures to make certain that the manufacture and resale of those products in Europe does not get into hands which would be diverted to illegitimate purposes. That is my understanding.

Senator BRYAN. You certainly might, through whatever the channels of communication are, indicate the nature of the concern of a good many of us on this committee.

Mr. SIMMONS. I know there are concerns, sir.

Senator BRYAN. Mr. Coticchia, you have testified before the House Select Narcotics Committee—or actually in testimony presented by CMA and not yourself, I apologize—that U.S. essential chemical exports to Latin America are largely consistent with legitimate end uses.

Do you believe that to be the case?

Mr. COTICCHIA. I personally have not had a chance to check the figures, but yes, sir, I would believe it as of now.

Senator BRYAN. Notwithstanding the testimony of Mr. Haislip and the CIA and others? I just find that difficult to believe.

If that is true, then we ought to declare a victory here in America and say we solved the problem here. That does not seem to be supported by the evidence.

Mr. COTICCHIA. May I give you a better answer at a future time? I have not had a chance to check into the figures.

Senator BRYAN. You certainly may.

I am going to yield to my colleague, Senator Burns, who has several questions.

Mr. COTICCHIA. Mr. Chairman, could I just set the record straight?

Senator BRYAN. Surely.

Mr. COTICCHIA. Ashland Chemical is not a producer but a distributor of these chemicals.

Senator BRYAN. Senator Burns, let me yield to you. I know you have to run on to another hearing.

Senator BURNS. Thank you, Mr. Chairman. It is not really that. I have another appointment, and I also want to get these gentlemen

out of here for lunch. I have never missed a meal, nor do I intend to. When it comes to dinnertime, I go to dinner, and it is almost that time.

Dr. Lee, I am not going to ask you a question. I am just going to comment on what you had to say.

It is disappointing but fact, Dr. Lee, that I guess we have to admit that the economic viability of the Andean countries down there is based upon an illegal and immoral drug trade. That really concerns me, but we have to accept that as fact, and that is what we have to deal from.

Mr. Rutledge, I would say that when you stockpile this MEK, do you ever have problems in your facilities down there? Is there ever theft, mysterious disappearances and things like that with which you have a problem?

Mr. RUTLEDGE. We do not have a problem. Let me explain briefly how the mechanism works.

As I explained, the products go from the United States to Colombia in parcel tankers in sealed compartments. They are offloaded in Cartagena in our case in our own terminal, and so we do not get involved in public facilities. Our terminal is run with our employees, and it is secured with security forces which we hire.

Several years ago we did have a hijacking. Since that time we have secured the services of additional security people to provide armed convoys to accompany the shipments of the MEK as it leaves Cartagena going to Bogota.

Senator BURNS. I would ask Mr. Coticchia, the CMA, is it a member of an international organization? Is there an international association of chemical manufacturers?

Mr. COTICCHIA. No, it is not. But the CMA is trying to approach other associations like the CMA in the U.S. to see if we cannot get something done like the CDTA.

Senator BURNS. It appears here, that even though there are companies who are trying to act responsibly in our country, that the key may fall on your organization, to apply pressure to the political winds in foreign countries, and influencing those people who produce these chemicals on foreign soils.

They too have a responsibility as a chemical manufacturer, and the integrity of their industry has to be maintained for it to stay viable.

I am fairly familiar with your organization and I would ask that those efforts be made on an international level. Because I think we all have a responsibility in this thing.

And I think we, too, in the political circle, should be starting to talk to our counterparts in these different countries, saying that we have got a big problem here, and those countries should take those steps that we would like to see taken in a controlled movement of these chemicals.

So, again, I want to thank the chairman for letting me just make a statement in that regard. I think that it may come down to your organization, in trying to impart those ideals and those moral rules in the chemical manufacturing industry to your foreign customers, that it is important to the industry that they start looking at their own operations.

And I appreciate your coming today, all four of you, and your testimony.

Thank you, Mr. Chairman.

Mr. COTICCHIA. If I may, Mr. Chairman.

I chair the committee for CMA that is really trying to face the issue of chemical diversion. And we just had our first meeting here about a month ago. We are having another meeting this afternoon.

One of our prime objects is, one, how can we help the DEA; and two, how can we get foreign companies involved so that they see the problem. And we look at this once a month.

Senator BRYAN. Well, we welcome that effort, obviously, and appreciate that.

Dr. Lee, we have not meant to ignore you. Dr. Lee, in your book you talk about the impact that this cocaine trafficking has, in terms of the economies of these Andean countries. What does it do for the average citizen? I mean is it all concentrated? Does it do anything that affects, in a positive way, their standard of living?

And if it is an economic incentive, do we snuff it out in the Andes and then it moves someplace else in South America or elsewhere around the world?

Dr. LEE. Well, I think we have to realize that the effects of the cocaine trade go well beyond the people who are actually directly involved in the business. The money that comes in is used for legal investments. The legal investments, in turn, generate income. Traffickers lend money to other legal sectors of the economy. They buy into a lot of the businesses.

And to the extent that this money flows into the legitimate economy, it does create benefits for large numbers of people. I do not know how many people. But it is clear that the economic benefits are quite widespread, going well beyond the million people or so who we think are directly involved in one phase or another of the trafficking chain.

Senator BRYAN. A million people involved in the trafficking chain?

Dr. LEE. I would say that about that number are directly involved full-time or part-time in one phase or another of this in all three of the Andean countries.

Senator BRYAN. Any strategy you might suggest, Dr. Lee, in addition to what we have been talking about this morning, in terms of chemical diversion and drug trafficking?

Dr. LEE. Well, I think that certainly the implications of the situation in South America, the way I see it, is that there is not a great deal that can be done to prevent chemicals from reaching cocaine laboratories once they get into South America.

But then we are talking about various types of strategies of getting the United States and foreign manufacturers to cooperate in embargoing these chemicals or reducing the flow of these chemicals, and trying to sort out which chemicals are used for legal purposes and which are diverted to cocaine manufacture. That becomes very difficult.

And I would suspect that even if we succeeded in some kind of a real restriction on the flow of these chemicals that these countries might develop their own chemical industry internally. They might integrate forward into the production of key compounds such as

ether, acetone, MEK, or toluene. There is no reason why they would not be able to do that.

Senator BRYAN. Dr. Lee, it looks like you and other members of the panel are spared a few more questions that I had. I see that we have got a vote coming up very shortly.

Let me give you a moment to respond, Mr. Rutledge, I did not mean to cut you off, but Dr. Lee had been neglected here a little bit in the colloquy.

Please.

Mr. RUTLEDGE. Thank you, Mr. Chairman.

I wanted to reply to Senator Burns' plea for international cooperation. And I wanted to state that we have been cooperating throughout our worldwide organization that is involved in the distribution of these products.

And we have tried to sensitize, over the past several years, our worldwide organization. And in fact, next week I will be going to an international meeting of our organization. And one of the specific topics on the agenda that has been given to me will be to again sensitize our organization and bring them up to date on the kinds of discussions that we have had here today and with the Drug Enforcement Administration earlier.

Senator BRYAN. We appreciate that.

I am sure I speak for the chairman of the entire committee when I say that we expect a very aggressive effort on your own part to monitor your own company's activities. And you have shared some of that with us, but to go beyond that.

I mean we have got a hell of a problem here, gentlemen. And maybe it is not your companies, I do not know. I do not have that specific information. But it is coming from somewhere. And for us to simply take a head-in-the-sand attitude that well, gee, it has got to be from Europe, it has got to be from China, it has got to be from Brazil, that, it seems to me, belies all of the credible evidence that has been developed.

We have a major problem here in the United States. I think a reasonable conclusion is that some of it comes from American manufacturers, some of it comes from foreign manufacturers who have subsidiaries based here, and increasing volume is coming from Europe.

We have got a problem and we need your help. And I do not think, at least for most of us, it is going to be sufficient to say I complied with the law. Let us assume that you have done this. This problem requires, it seems to me, a moral commitment, a real crusade, if you will, to work with your counterparts globally and in this country, to see if we cannot extirpate this type of chemical diversion and trafficking.

And we thank you very much for your testimony.

The subcommittee hearing will stand adjourned.

[Whereupon, at 12:07 p.m., the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF PETER ANDREAS, RESEARCH ASSOCIATE, INSTITUTE FOR POLICY STUDIES

Mr. Chairman: My name is Peter Andreas, and I am a Research Associate at the Institute for Policy Studies. Much of my work focuses on U.S. drug policy and the Latin American cocaine trade. I have written a number of articles on the subject, including an article in the November 21, 1989 issue of The New Republic on the use of U.S. chemicals for cocaine processing. Thank you for inviting me to discuss this largely ignored but vitally important subject.

The Colombian drug cartels are extremely dependent on massive supplies of chemicals to refine raw coca paste into cocaine. Their main supplier is the united States--the same country, ironically, that has declared war on them. This absurd contradiction has gone largely unnoticed in Washington, even though our own intelligence reports clearly document the cartels' dependence on U.S. chemicals at least as far back as the ear'y 1980's. As an exhaustive DEA study, called "Operation Steeple," reported in December 1981:

"A major vulnerability to Colombia's traditional status in the world cocaine trafficking community is its dependence on the importation both of acetone and ether, neither of which is produced in appreciable quantity internally...While acetone has fairly wide industrial application in Colombia, ether does not, with perhaps as much as 98 percent of the latter believed to be destined for illicit users."

The report concluded that "The Drug Enforcement Administration can effect major damage to the Colombian cocaine processing industry through the denial of selected precursors, namely acetone and ether...of the two, ether is by far the most vulnerable...If the Drug Enforcement Administration can successfully cut the availability of these precursor substances through timely,

coordinated action, the coca processing industry in Colombia could founder." (1)

Unfortunately, it took until last November--eight years later--for Washington to impose any chemical export regulations at all. While U.S. anti-narcotics efforts have focused almost exclusively on stopping the flow of cocaine into the country, next to nothing was being done to stop the heavy flow of chemicals going out.

Consequently, as exports of U.S.-made chemicals boomed to Latin America in the 1980's, so did imports of cocaine made with these very same chemicals. A 1988 Central Intelligence Agency study reports that the amounts of U.S. chemicals exported to Latin America far exceed the quantities needed for legitimate purposes. From 1983 to 1986, the report says, shipments of the chemicals acetone, toluene, and methyl ethyl ketone (MEK) increased by about 125 percent, yet industrial activity in the region rose only 2 to 15 percent. The DEA estimates that 47 percent of the 10,000 tons of ether and acetone shipped from the U.S. to the Andean drug producing nations in 1987 ended up being used to make cocaine. (2)

Police raids on Colombian cocaine labs have found hundreds of thousands of gallons of American-made chemicals, many in containers clearly marked with U.S. corporate logos. A raid on a lab near the city of Medellin in May 1988 discovered 154,000 gallons of ether and acetone--enough to produce 33,600 kilograms of cocaine with a New York street value of $2.7 billion. Between 80 to 90 percent of the chemicals were reportedly from the United States. (3)

Another series of raids in January and February 1989, called "Operation Primavera," destroyed 25 laboratories and seized 105,870 gallons of ether, 210,385 gallons of acetone, and 100,840 gallons

of MEK--enough chemicals to produce 88 metric tons of cocaine. (4)

The chemical MEK has been especially problematic. As the Los Angeles Times reported on December 5 1989, U.S. investigators estimate that 90 percent of the 13 million tons of MEK exported to Colombia last year was diverted for cocaine processing. According to the article, "a small number of companies account for the vast majority of MEK exports and go to considerable lengths to disguise their role."

The Times' investigation revealed that Exxon and Shell, the two largest producers of MEK, almost monopolize the Colombian market. But while Colombia absorbs about 12 percent of total U.S. sales of MEK, it doesn't produce nearly enough MEK-based products to justify being one of Exxon and Shell's biggest foreign customers. (5)

While these and other U.S. chemical companies are obviously not deliberately trying to aid Colombia's cocaine cartels, they are certainly aware that Colombia has no legitimate use for such enormous quantities of MEK. Although Exxon and Shell emphasize that they are selling to customers approved by the DEA, they must take responsibility for the fact that most of their exports of MEK are winding up in the hands of criminals.

The Los Angeles Times story on MEK exports sparked the initial interest in holding this Senate hearing. I think the article's findings should also make us realize that current export regulations are woefully inadequate. As the article shows, Exxon can fully abide by the law and still have most of its MEK exports end up being used to make cocaine.

The new regulations, called the "Chemical Diversion and Trafficking Act," require the exporters of 20 key processing

chemicals to notify the DEA of all shipments, and report sales to new customers 15 days in advance. While the new law is obviously an improvement over the totally unregulated system of the past, the rules merely require exporters to maintain records they were usually already in the habit of keeping.

It's up to the DEA, not the chemical companies, to verify the legitimacy of their customers. Funds and manpower are extremely limited for the massive paperwork and lengthy investigations needed for the DEA to adequately track exports and check customers. Giving the DEA only fifteen days to investigate new customers is an overwhelming task. Concerned about this problem, a U.S. embassy spokesperson in Bogota has said that, "We have to drop everything were doing to track down the shipment in time." (6)

Under these conditions, the law simply cannot be effective. As one Chemical company spokesperson has noted, "They [the DEA] may end up with rooms full of this information and nobody to look at it." (7) Confirming the extent of the problem, one DEA official has said, "My fear is that we'll be overwhelmed...if we only have five companies to check each month, we can take care of it with one officer. But if we have to deal with 100 a month we'll OD [overdose] on it." (8)

At an international drug enforcement conference in April of last year, President Bush promised that "whatever needs to be done will be done" to stop the flow of chemicals to Colombia's cocaine labs. (9) Yet despite these hopeful words, his new drug war agenda reflects other priorities, such as expanding the role of the military, building more prisons, providing increased military aid and training to producer countries, and escalating what have proven to be inneffective and extremely costly border interdiction

operations.

In terms of cost effectiveness alone, this approach defies logic. In the words of one Senior U.S. diplomat in Colombia, "it's a heck of a lot easier to intercept a tanker truck of acetone than a few dozen kilos of cocaine."(10) This reality should help us redefine our priorities in the war on drugs. Current regulations on chemical exports are far too weak, and will remain largely ineffective without real enforcement and a genuine commitment from Washington--both of which have been sorely lacking. But the magnitude of the problem requires that we not only bolster the present law and make manufacturers more accountable, but also establish a strict quota system, whereby U.S. chemical exports cannot exceed the established and verifiable needs of legal industries in drug producing countries.

Such a strategy, while not full-proof, would automatically result in a major reduction of chemical exports, since current supplies far exceed the demands of legitimate industry. This would require special export and delivery procedures, as well as greater hemispheric coordination to guarantee that the needs of legitimate customers continue to be met. Further, such a plan would need the full support of the European Economic Community and Brazil.

While curbing the chemical supply is no easy task, and is ultimately only part of the solution to a drug crisis which at its root is a demand-side problem, we must adopt these bold measures to monitor, restrict, and control the export of processing chemicals which are the fuel of the cocaine industry. If we fail to take stronger action now, we can only blame ourselves for keeping Colombia's cocaine factories running. How can we blame Latin American countries for producing drugs while our chemicals are the

fuel that keep their drug factories running?

Even if the quota system proves to be only partially effective and the drug cartels develop new ways to refine cocaine or find alternative chemical supplies, we will at least have accomplished one important goal: we will no longer be providing the vital ingredients of our own poison.

American chemical companies will surely oppose a quota system because of the loss in profits. However, a high percentage of these profits are illegitimate to begin with--originating in the cocaine business. American chemical companies must become part of the solution rather than the problem. As Senator Reid said a week ago, "We must send a message to Exxon, and to other chemical companies, that poison for profit will not be tolerated. It is difficult enough to fight the drug war on the streets of America, but to be forced to fight it in the board rooms of corporate America should not be necessary."

Sources:

1. Cited in Guy Gugliotta and Jeff Leen, The Kings of Cocaine, 1989.

2. Stanley Penn. "Heavy Traffic: Heavy Flow of Chemicals From U.S. Supplies Narcotics Producers Across Latin America," Wall St. Journal, July 13, 1988.

3. Ibid.

4."Chemical Diversion and Trafficking," Drug Enforcement Administration Memo, obtained from the DEA Fall 1989.

5. Douglas Jehl, "Cocaine Has Made in USA Label," Los Angeles Times, December 5, 1989.

6. Tom Quinn, "Scrambling to Cut the Cocaine/Chemicals Connection," Chemical Week, January 4-11, 1989.

7. Ibid.

8. Brook Larmer, "U.S., Mexico Try to Halt Chemical Flow to Cartels," Christian Science Monitor, October 23, 1989.

9. Text of President Bush's Speech at International Drug Enforcement Conference, April 27, 1989, provided by the Drug Enforcement Administration.

10. Jehl, Los Angeles Times

11. Congressional Record, January 31, 1990, pg. S 635

Mobil Corporation

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March 2, 1990

Ms. Loretta Dunn
Senate Commerce Subcommittee
on Foreign Commerce and Tourism
Room 428
Hart Senate Office Building
Washington, D.C. 20510

Dear Ms. Dunn:

The U.S. Drug Enforcement Agency (DEA) displayed a videotape at the February 6, 1990 hearing before the Senate Commerce Subcommittee on Foreign Commerce and Tourism concerning the diversion of chemicals for drug trafficking purposes. In the tape, a Mobil drum was visible at a Latin American drug-production site. We feel that an explanation could be helpful to the subcommittee as it pursues this most important topic.

The markings on the Mobil drum shown in the videotape indicate the product is a basic lube stock used by rubber processors to manufacture rubber products. This lube stock has nothing to do with the manufacture of drugs. The container could of course be a spent drum now holding another material as to which we would have no knowledge.

No Mobil unit produces, supplies or markets in Latin America any of the eight "essential chemicals" listed in the Chemical Diversion and Trafficking Act of 1989 used in drug manufacture.

Mobil Chemical does produce one of the eight essential chemicals, toluene, in the United States. Our company, however, voluntarily goes beyond the requirements of the Act and will not accept toluene orders from persons not on a preauthorized customer purchasing list.

We would very much appreciate your consideration of making this explanation a part of the record of that hearing. We hope that this information is helpful to you.

Sincerely,

Barney J. Skladany Jr.